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***NATO Action in Bosnia Viewed**

95UM0632A Moscow KRASNAYA ZVEZDA in Russian 7 Sep 95 p 3

[Article by Mikhail Pogorelyy: "The Genie of War Is Fighting To Break Free"]

[FBIS Translated Text] NATO aviation has delivered another bomb and missile strike against Serbian positions in Bosnia, in the southern regions of the capital of Sarajevo and also in the cities of Pale, Kiskidol, Pailovac, and Crna Reka. The heavy artillery of the NATO rapid reaction forces has also shelled the Serbian suburbs of Sarajevo. According to reports by world information agencies, several military sites of the Bosnian Serbs have been hit, but there are also significant losses among the civilian population.

At the headquarters of the bloc the operations by NATO air and ground forces have been given the names "Deliberate Force" and "Liberated Force." I do not know about deliberation, but the second name is deeply significant. The North Atlantic Alliance, perhaps for the first time since it was formed, has found itself free in all its destructive might. To bridle it again will obviously be as hard as it once was to force the released genie back into the bottle. One forms the impression that the present bombardment of Serbian territory is not simply a show of NATO force and determination, but rather direct participation by the bloc in combat operations on the side of the Islamic government of Bosnia. After all, on Tuesday when Islamic troops under cover of NATO air strikes unleashed an attack against the positions of their Orthodox countrymen, Brussels not only did nothing to stop the action of the government army, but did not even express a formal protest. NATO Secretary General Willi Klaess limited himself to an abstract comment to the effect that "no one should try to derive benefit from our actions." Nonetheless, they are trying, and they are doing it, with the silent approval of the West.

The reason for the use of force ("deliberate," "liberated," or whatever) is no longer important for NATO forces. The leadership of the Bosnian Serbs agreed last evening to meet the demands of the ultimatum to withdraw their heavy weapons from Sarajevo and participate in peace talks, but no one paid attention to Pale's response because, apparently, this did not suit the Western leaders.

Moreover, even the specific pretext for unleashing war against the Serbs of Bosnia still raises serious doubts. As ITAR-TASS reports, an unnamed representative of the Russian military department has learned that the Sarajevo residence of "one of the Western special services" organized "Operation Cyclone-1" last year and a similar action called "Cyclone-2" in August of this year. In both cases explosions were set off in the Sarajevo market through the services of Islamic fanatics, and this became the occasion for NATO punitive measures. Although one of the Russian special services warned the Americans, Germans, and Croatians in advance of the provocation that was being planned, the information on it was classified. The results are common knowledge. It appears that all the same someone was very anxious to get into the war, but will they be able to get out so easily and painlessly?

***Measures To Increase Foreign Investment Debated**

954E1423A Moscow EKONOMIKA I ZHIZN in Russian Sep 95 No 36, p 1

[Article by M. Mityukov, first deputy chairman of the State Duma, and I. Kotelevskaya, candidate of juridical sciences: "Russia and the CIS—Will We Compare Draft Investment Laws?"]

[FBIS Translated Text] **The decline in the level of foreign investment in the Russian economy is a serious concern today not only to the domestic entrepreneur but also to organs of state power, from the government to the parliament. The RF president's call, which was sounded in his annual message to the Federal Assembly, to turn toward investment was also directed to capitalists across the border. A significant aspect of this problem is the legal regulation of foreign investments in the country.**

Let us have a look at the "legal field" in which foreign investing occurs today. The arsenal of Russian legislation has two primary acts: the RF laws on investment activity and foreign investments, which were adopted by the Supreme Soviet in the first wave of democratization of the country's economic life. There is no doubt today that they need substantial updating. The whole question is how and on what principles the legislative foundation of foreign investments needs to be built.

The presidential edicts and governmental decrees adopted between 1991 and 1995 on problems of foreign investing resolved a number of specific questions, for example in the sphere of import privileges they established special state organs for financial planning, consultation, and registration of enterprises with foreign investments, but the need for legislative regulation remains unsatisfied. Both the parliament and the government are clearly aware of this.

Parliament's first attempt in this direction was the draft law prepared by State Duma deputies. In June the RF

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Government also introduced its own version in a new edition of the law on foreign investments.

Formulation of the law, as the authors of the government draft acknowledge, was a difficult job given the continuous changes in Russian law. Obviously work with a very complex draft will take considerable time, especially where it has to be considered in relation to other laws. on concession agreements concluded by Russian and foreign investors, on agreements to divide up output, on free economic zones, and others.

The Government Version

The developers of the new edition of the law on foreign investments considered the provisions of Part One of the RF Civil Code which make fundamental changes in the legal foundations of entrepreneurial activity, and they excluded or modified a number of articles which had lost their significance after the adoption of special laws regulating taxation, customs and currency issues, labor relations, and other matters.

While preserving the overall structure of the RSFSR law of 1991, the draft gives a more exact definition of the foreign investor and an elaborated concept of foreign investments. State guarantees to protect foreign investments from changes in the law and from nationalization, requisition, and illegal administrative actions are described in detail. Guarantees are also given for investor use of their income in either monetary or physical form.

The draft law regulates the formation and liquidation of commercial organizations with foreign investments and branches of foreign legal persons, and it establishes the procedure and conditions for registering agreements relating to foreign investments. Until the federal law on registration of legal persons envisioned in Part One of the RF Civil Code is put into effect it proposes to keep the existing system of registration. On the other hand the concept of the status of commercial organization with foreign investments is introduced as well as procedures for acquiring and losing this status. Information on branches of foreign legal persons and agreements on direct foreign investments must be entered in a special State Register.

The draft is connected in many ways with existing special laws and therefore it refers to them when the subject is operations with securities in the stock market, acquisition of material rights to land, natural resources, and other real estate, and property leasing.

The existing privileges for foreign investors and economic subjects with participation of foreign capital and those proposed in the draft law are aimed at the creation, expansion, and modernization of fixed productive capital in material production and stepping up the payback on investments. At the same time, of course, a mechanism for effective control over obtaining rights to privileges and over their use must be created.

What the Draft Law Does Not Consider

Perhaps the Russian Parliament should not be in a hurry, should stop and look around? After all, model principles of foreign investing are being developed for the CIS member countries in parallel to this.

In January 1995 the Organization for Economic Cooperation and Development (OECD), acting within the framework of its program of cooperating with states with transitional economies, invited all the CIS countries to take part in the work of a group of experts on foreign investments. It included representatives of state organs and scientists from nine CIS countries: Belarus, Azerbaijan, Armenia, Turkmenistan, Kyrgyzstan, Kazakhstan, Uzbekistan, the Russian Federation, and Ukraine. Specialists from the OECD, the International Chamber of Commerce, the Turkish Agency for International Cooperation, and the FRG investment department were enlisted as experts.

The group's objective was to prepare a document reflecting the principles and methods of carrying on foreign investments which have received international recognition. In the end a draft of model principles was developed and it is now being discussed in the business associations of the OECD. It is expected that extensive commentary to the future model act will be prepared by October, after which the actual draft law and commentary to it will be published and sent to the parliaments of the CIS states.

The draft model law is built on three "weight-bearing" principles: "national rules," "international standards," and "market function."

"National rules" is the foundation, the cornerstone of legislation on foreign investments. On this basis, foreign investors should be treated the same as domestic ones, no worse and no better. In other words, foreign investors should not be given privileges, but they should not be hindered either. National rules also means that they are subject to the laws of the receiving country and the rules governing relations in the fields of state policies for environmental protection, public health, consumer protection, and others.

This principle reflects a policy adopted throughout the world. We will note that of the industrially developed countries, only Australia, Canada, and Spain have special acts that regulate foreign investments. The laws

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in all the other countries do not distinguish between domestic and foreign investors.

In the specific conditions that exist in countries with transitional economies, special laws may nonetheless be of some benefit and help put the country in the move favorable light in the eyes of foreign investors. This also signifies realization of the "market function." Because the foreign investor evaluates where the attitude toward it is fair according to appropriate international measures, the more the national law reflects international legal standards, the more trust it will inspire.

Does Russian Law Need International Standards?

The norms for giving access to foreign capital and carrying on the activities related to this are continued in some 12 agreements on protection of investments which were concluded by the Russian Federation and in the Treaty on Partnership and Cooperation with the European Union. They are also reflected in the Energy Charter signed by Russia in 1994.

All of these agreements and treaties include articles about "most favored status" which guarantee investors from the agreeing country the highest level of protection and the most liberal rules. The sum effect of the provisions on most-favored status continued in the particular documents is that all the agreements relating to investment that have been concluded by Russia on a bilateral or multilateral basis are linked into an all-embracing system. It guarantees a level of protection and independence for investors that corresponds to international law. Therefore, it is wise to summarize these agreements and reflect this synthesis as accurately as possible in the Russian law in order to ensure that domestic Russian law corresponds with its obligations on the basis of international law.

Because Russia has already agreed to follow the priority of international standards, reflection of this principle in the Russian law will not require any additional obligations on the part of the state. The law will simply stipulate the guarantees for investors to which they already have a right according to the agreements.

This argument is correct only in relation to investors of countries with which Russia has concluded agreements on protection of investments, but they are chiefly the economically developed states. If the law on foreign investments were to lag behind these agreements it would mean, therefore, that less favorable conditions for investment would be created in Russia for investors from the smaller industrially developed countries, the developing countries, and especially the CIS countries.

The recommended act does not claim to be a detailed statement of the law on foreign investments because its full text can only be formulated with due regard for the specific obligations and intentions of each country. Therefore it puts the emphasis of certain most significant elements which are widely recognized throughout the world as a model which can serve as a general basis for the laws of the CIS countries. In conformity with this approach the recommended act does not include two topics that relate to Russian legislation on foreign investments: taxation and privileges in customs duties.

The failure to mention tax stimulation of investments is explained by the action of national rules which envision that there will be no special privileges or advantages for foreign investors in comparison with domestic ones. This point corresponds not only with international policy but also with the results of studies of practical activity. These studies show that stimulation programs, especially in combination with effectiveness requirements, usually do not achieve their goal and at the same time cost the countries which are receiving investments dearly.

However, this assertion does not assume that such programs are useless in specific economic sectors or regions. In normal conditions both foreign and domestic investors need to be helped, and stimulation should be done in the appropriate sector or envisioned in legislative acts on regional development, but not laws on foreign investments. Moreover, the text does not state a point of view on whether all privileges in the area of taxation or customs duties can prove useful or even essential under certain circumstances that arise in particular adopting countries such as the Russian Federation.

The special attention given to national rules is explained by the fact that the recommended act makes no mention of a registration procedure. It would be advisable, in the opinion of the authors, for investors and enterprises with foreign capital investment to go through the same registration procedure as domestic investors.

As we see, there are no irreconcilable conflicts between the recommended act and the draft federal law on foreign investments in Russia. They are in agreement and can and should co-exist in full, especially when the model Civil Code of the CIS, adopted by the Interparliamentary Assembly of CIS Member States in September 1994, was used as the foundation in development of the draft of the recommended act.

The differences between the national and model laws are also natural because the Russian law must reflect the level of the country's economic development and information infrastructure and the unique features of the Russian legislative system.

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The Goals of the Recommended Law Being Developed on Foreign Investments in the CIS

—serve as a source of information for CIS countries in improving their own legislation in the area of foreign investments;

—create a basis for coordinating technical consultations offered to CIS countries in the area of legislation on foreign investments;

—promote improved coordination of the legislation of the CIS countries in the area of foreign investments with international standards used in treaties of protection of investments and in multilateral agreements;

—facilitate the development in the CIS countries of a common approach and terminology in relation to legislation on foreign investments;

—promote precision and clarity in the legislation of the CIS countries on foreign investments.

At a session of the Joint Commission on Coordination of Legislative Activity in the State Duma in July the draft of the model principles of foreign investing was presented and discussed. We hope that the parliament of Russia and the Interparliamentary Assembly of the CIS Member States will not ignore this development and will be able to give it life.

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Kobzon Defends Past Activities

954F3527A Moscow OGONEK in Russian Aug 95 No 35, pp 36-38

[Statement by singer Iosif Kobzon presented at press conference in Tel Aviv; date not given; prepared for publication by Vadim Letov, published under the rubric "Monologue": "I. Kobzon: I Am Much Better Than My Reputation"]

[FBIS Translated Text] Iosif Kobzon called a press conference at the Tel Aviv five-star Dan Hotel, in the presidential suite facing the sea. At it, he asked journalists to protect his honor and dignity from a campaign of harassment. Provided, of course, the performer added, that they find it possible. Actually, it appears Kobzon himself does not know from whom he should be protected. His monologue lasted almost three hours. The editors, without changing the substance, have trimmed it to fit the magazine's space:

I must confess that I like the word "the first one." I was the first to perform on Damanskiy Island, in Tynda, and in Afghanistan. I visited Israel for the first time in 1983. There were no diplomatic relations between our countries, and there was a quota on trips. Well, at the meeting with Meir Vilner, chairman of the Israeli Communist Party, overcoming all the "prohibitions," permission was obtained for my concerts. They also were the first....

There was a time when my name was linked with that of Israeli businessman Shabtay Kalmanovich. I have never concealed my good relations with him. But I was never dependent on him financially. There were hints to that effect in the local press, which called me a "poor Soviet performer." I have never been poor because I worked a lot.

And then I learned in horror—this was in 1988—that Kalmanovich had been arrested on suspicion of spying for the Soviet Union. This was disheartening news. I did not know about this side of Shabtay's activities. Even later, after his release, I did not discuss "this" with him. It was a secret life, of no interest to me. Friendship, however, is not an empty word for me, and during one of my next trips to Israel I did manage to visit him in prison.

Anyway, it was Kalmanovich's fate that brought me to the office of Aleksandr Rutskoy, then vice president of Russia. Since the time of Afghanistan, where I went on tour nine times, I had good relations with him.

"The question," Rutskoy told me, "should be tackled from the rear. Your task is to manage to inform Gorbachev that Russia intends to get ahead of the Union and be the first to sign an agreement with Israel. Perhaps something will come out of it...."

I rushed to Boris Pankin, the Union minister of foreign affairs, and mentioned "in passing" that I heard some scuttlebutt that Russia intends, and so on. And how will the USSR look in this situation? "Well, well," Pankin pondered the news.

The same day, Rutskoy's phone rang: "Is this true?" "Yes," he said, "and why not?" Soon the whole world learned about another rent in the "iron curtain"—the restoration of diplomatic relations between the Soviet Union and Israel. I personally was happy that I, as a Jew, had helped to speed along this inevitable event....

Kalmanovich was released in the spring of 1993, and I talked him into moving to Moscow. First of all for medical treatment after two surgeries in prison. And second. He needed, at least for a while, to get away from being shunned by his compatriots. I certainly was aware of their fierce patriotism bordering on chauvinism. In Moscow I brought my comrade into business, and we set up a joint enterprise—Liat-Natali. Mysterious but simple: Liat is Shabtay's daughter, and Natasha is mine. We opened a network of drugstores in different places—in Moscow and in the south. By a strange twist of fate these drugstores later would figure prominently in the raving campaign against me.

The really tense time began for me in April of last year, when Otari Kvantrishvili was killed in Moscow.

IZVESTIYA reported that Kobzon drove up to the site of Kvantrishvili's murder, opened the car door slightly, looked at the scene, and sped off without getting out of the car. But I was performing overseas that day. At first, the press was "gentle"— giving me advice about whom to be or not to be friends with, what to do or not to do. Then reports started popping up in the press that I and my business colleagues may be targeted for a hit. Since then I have to keep company with bodyguards....

Then Aleksandr Rutskoy was released from prison. He called me and asked to meet. I went, knowing that we would be under surveillance. But I have my principles, and have no desire to change them. I saw Rutskoy as a completely changed man. The spark in him had disappeared, or something like that.

Before that, the last time I saw him was at the Presnya—in his high-rise entrenchment. I went there at the request of Yuriy Luzhkov, the mayor of Moscow, for whom I served at the time as a volunteer adviser, and FSK [Federal Counterintelligence Service] Chairman Nikolay Galushko. In the week preceding the attack I visited the White House four times, and talked to Rutskoy and Khasbulatov there. Everybody knew that

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I was acting as an intermediary in this. I have never been an informer. I have never hidden behind other people's backs.... And from Krasnodar I watched the televised point-blank shelling of the White House with understandable horror....

Where and what went wrong? Why did my actions disappear like water into the sand? After each visit to the Presnya I reported my ideas to Luzhkov and Galushko, and they, as I understand it, took them higher up. So it turns out that all my efforts were in vain. But I still think to this day that I fulfilled my task honestly and unambiguously.

So I met with Rutskoy in a cafe. Rutskoy clearly needed human support, and I very much empathized with him. He said that he would like first of all to make amends for his children. And also to apologize to two people—Luzhkov and Gromov. The former he had not listened to, which he now regretted. The latter, a combat general, his commander in Afghanistan, he had accused of cowardice in a fit of temper—and so Gromov did not come to stand by him at the barricades. Gromov, by the way, during those hours was working the phones, keeping the Dzerzhinskiy division's special units from marching on Moscow. Had this happened, things would have been much worse in the capital.

On a mobile phone, I got him in touch with Luzhkov and Gromov. I saw myself how his face lit up after those conversations. Luzhkov, by the way, promised him he would arrange a meeting with the president, so they could also find a common denominator in this meeting. And to finish this conversation, I will tell you that Boris Nikolayevich categorically refused to have this conversation. Well, it was his decision....

Luzhkov began getting some heat. An excellent economic administrator, he had always shunned politics. But then the new- democrat Gavriil Popov resigned his post, and this very politics invaded his office. He became an active hindrance to someone. ROSSIYSKAYA GAZETA published a dirty satirical piece "Snow Is Falling," in which, by the way, they took a swipe at me too—without mentioning me by name, but quite transparently. The public rebutted the newspaper. And I asked to resign. I got tired of teasing the geese....

I stopped doing business with Kalmanovich. The man had recovered from the blows of fate by then and could walk on his own. The company continued with one name—Liat.

....At one concert in "Russia"—this was recently, on the eve of Victory Day—Viktor Chernomyrdin, a high-ranking official I respect, came over to me after performance.

"Iosif, I ask you—make peace with the president...."

"Then help me. I cannot, after all, get to him through all the barriers and say: 'Boris Nikolayevich, let us make peace!'"

"I cannot," shrugged Viktor Stepanovich. "Nobody can. You know that before 1230 only Ilyushin has access to the president. And after 1230—only Korzhakov...."

I replied: Let everything stay as is.

I was struck off the list of performers at Poklonnaya Hill— Yeltsin was there.

I am a gentle man. If I hold a grudge against someone, I know why. So I want to know what I have done wrong. And so I arrived at the idea of communicating with the president by letter.

The letter began this way: "Mr. President, I have nothing to repent for. I am not asking for your forgiveness. I have done you no wrong. You must remember how it feels to be out of favor. Therefore, you can understand my concern...."

I did not ask for anything. Even to be liked. I simply asked to be heard. Everybody has the right not to like the performer Kobzon. But the performer Kobzon also has the right to elementary respect. There was a postscript in the letter: "In the event my request is left unanswered, I will be compelled to publish it in the mass media." I passed the letter through the president's aide, Sukhanov. He read it and asked me to remove the postscript. This smacked of a challenge. I said I would not change anything. Let it go as is....

There was no reply, and anyway, does the president even get his mail?

And publications already were coming down like a dirty blizzard. My AO Moskovit also came under fire. Familiar handwriting. Audit after audit, five or six in a row. The auditors, finding nothing, left, only to show up again soon. They were told to find something. So I went on the offensive. I wrote all enforcement structures a request that they charge me and....arrest me. If they have some compromising material, they have to do something instead of hoodwinking the reading public.

The replies came back fast. In the same style, but from different houses. The FSK, for instance, replied to Professor, USSR People's Artist I.D. Kobzon—this was the address—that there was no file on him, no unlawful actions noted, no telephone tap. The reply from the Russian MVD [Ministry of Internal Affairs] was along the same lines. Then who detained my company car on the way from Sheremetyevo? Who "suspected" my team

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of stealing it from some unknown person? Who put a "bug" in it?

In someone's stage direction the role of mute mummer was reserved for me, but I did not want it.

In this particular case I do not want to—or rather, cannot—name the person. Trust me, his position is high. Let me just say that a certain general asked me to come to his office. And so I went. We talked about something, communicating on paper. He would write something to you. And you replied on the same paper.

So we "talked" this way, for a long time and about nothing. We drank some tea. And some more tea. And finally I asked loudly:

"Actually, why did you invite me?"

The general started strangely and swirled a finger over his head, imitating a helicopter rotor. Something turning. Oh—somebody is making a recording somewhere.

"Thank you for coming in. Glad to make your acquaintance. Let me see you out...."

In the hallway, he silently handed me a piece of paper. An ordinary piece of paper, stamped "Top Secret! For Official Use Only." No signature. No address. Only a file of a few paragraphs. A file on me. An official anonymous letter, so to say. Or perhaps a blueprint for action.

...Kobzon I.D., born in the year such-and-such, Jewish, currently the head of two AO's—Moskovit and Liat-Natali: maintains six casinos; engages in smuggling of antiques, precious stones, arms, and drugs. Engages in drug trafficking under the cover of drugstores. Has ongoing contacts with CIA and Mossad agents. Has considerable real estate abroad. Aids mafiosi structures and inspires them ideologically. And so on....

What year is it now? No, in 1937 there was no CIA or Mossad.

"So why did you not act on it? Why did you not arrest me? Expose me? Check me out, after all?"

"Why do you think we did not check it out? We did. And we were not the only ones. We reported the results higher up, and kept the paper for the archives."

Now, I said, I see why the document exists in multiple copies. If threats against me are carried out, you will have no choice but to quickly publish this file in the press. That is all. So the whole world will become "aware" of who Kobzon is....

"Perhaps," replied the general, unperturbed.

Minister of Defense Pavel Grachev, who has been Pasha to me since the time of Afghanistan, invited me on an inspection tour in Tajikistan. At the time I wanted to build more affinity between Grachev and Gromov; I wanted my general, who did not find himself a proper fit in the corridors of power, to serve with dignity, not in vain, and so I agreed to this voyage.

The meeting was already coming to an end when General Pyankov, commander of the combined peacekeeping forces, and Tajik leader Rakhmonov suddenly proposed to award me summarily for my accomplishments the title of....Hero of Russia. Some joke!

"And why not?" Grachev suddenly raised his eyebrows. "I suggest that the collegium vote. I vote in favor...."

The vote was unanimous. I began to explain that this was not a good time for jokes.

"It is not up to you, Comrade Marshal...."

This is what they called me in his circle—"Comrade Marshal."

On the plane on the way back, General Vysotskiy, a Hero of the Soviet Union, chief of the Ministry of Defense personnel department, moved over to the seat next to me and began asking about my "curriculum vitae."

"Would you drop this?" I was already angry.

"How can I drop it?" Vysotskiy sighed, "I got an order to arrange the title of Hero in three days."

....Ordered to arranged the title of Hero.

I am only enumerating the facts. I am not afraid of them being published. I want to be heard.

....On 6 March, THE WASHINGTON TIMES promoted me in rank: "Russian mafia tsar, the famous singer Iosif Kobzon, whose gang includes Moscow Mayor Luzhkov, General Gromov, and Most-Bank President Gusinskiy...." Take note—not gang leader, not ringleader—but tsar. And then the lines from the file. It turns out that I transport money for the world mafia in suitcases through Germany. And the party interested in exposing me allegedly has my photo, which shows me walking, carrying an attache case with the aforementioned money. I am curious—how could they tell from the photo that the case contained money, and not condoms or papers? And why was I not "caught" carrying this money?

I sued the newspaper. They said that they had received the information from the CIA. And where did the CIA get the information? Now I have to sue the CIA. About a month ago, at the end of June, I got a kind invitation to attend the American medical center in the morning, and then at 1300 to come to see the consul.

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I went, because prior to that I received a notice that the American visa issued to me at the end of last year had been annulled. At the medical center an embarrassed Russian-speaking doctor informed me of a very strange request he personally had encountered practically for the first time. In short, I had to undergo a test for AIDS and syphilis....

In all honesty, I do not know if one has to go through such denigrating procedures in order to visit the American consul on the subject of an annulled visa.

The consul sat behind bullet-proof glass, while I stood in front of him, because there were no chairs in this box-room. By the grace of God, so far I have been spared prison. I saw one once, and even that in Israel, when I visited Kalmanovich. The consul took my passport and asked me to wait a minute. And in fact he did return soon and told me that my visa had been canceled.

And so another case went into gear. And again working with lawyers. Meanwhile, I no longer know who I am now to my ordinary fans. I have given 36 years to show business, I have given thousands of benefit concerts, maintained orphanages, not been afraid of bullets, and now I have become a criminal without a crime. I appeared on the "Man and the Law" radio program. I appealed to the law enforcement organs, to listeners, to various structures to conduct an investigation, to find the facts that smear me in some way, finally, to take measures. And if there are no such facts, then protect my reputation.

My trip to Israel partially was caused by the desire to have this talk. And also so that I could look into the eyes of the journalist who in the main Israeli newspaper EDIOT AKHRANOT published a vivid rendition of the ITAR-TASS characterization of me: "....being a Jew by nationality, and having an influential position in Russia, Kobzon became a Russian foreign minister of criminal affairs of sorts....he became a treasurer of the criminal kitty and speaks in newspapers defending crime lords...." Where does it all come from?

I do not want to sue EDIOT AKHRANOT, although I would have no trouble winning this case. I do not want to sue Israel, because it too, following the United States, was deceived. Last year the World Jewish League named me Jew of the Year. I was sitting at the awards ceremony next to Larry King, the famous television commentator and the other award winner, and could not possibly have anticipated that in Israel I would be nicknamed "Worst Jew of the Year." Gentlemen, the world may return to 1937 if we unthinkingly let dishonest services lead us. The services that cannot solve a single contract murder but wittingly or unwittingly take aim at all that is new. Gentlemen, I call for vigilance....

Meanwhile

Probably not one of the other more or less well-known figures in Russian culture has attracted so much press attention as Iosif Kobzon—businessman, philanthropist, and singer. It is not accidental that we put the latter last among his occupations—in the increasingly frequent press publications nobody argues over the singer's new repertoire, whether his voice is still fresh, and whether he can still easily make that difficult B flat.

In any case, in the chronology of events surrounding Kobzon, the RF MVD weekly SHCHIT I MECH ["Shield and Sword"] reports information that is far less pleasant for Iosif Davydovich (No. 34, 10 August 1995).

Briefly, the lineup of events is as follows. In June the consular division of the American Embassy in Moscow informed I.D. Kobzon in writing that his entry visa to the United States was being annulled—there was reason to believe he might harm the interests of that country. On 8 June, the news came of the arrest in the United States of Vyacheslav Ivankov ("the Jap"); the grounds—charges of extortion. On 5 July on the ORT program "Chas Pik" ["Rush Hour"] Kobzon demands that he be either completely cleared of suspicion or....arrested.

"We think," writes the newspaper, "that Iosif Davydovich should only blame himself: His notoriety overseas is to a large extent his own fault. ....It is also known that Iosif Davydovich is personally acquainted with the legendary Jap and pays due respect to his intellect, strong character, and his ability to recite Yesenin's poems by heart."

At the beginning of August many figures in Russian culture rallied in defense of the persecuted minstrel: In a letter to the president of Russia they asked him to "use (his) influence and authority to stop the malicious slander campaign against the singer, pedagogue, public figure, and patriot."

On 18 September the newspaper SEGODNYA commented on this touching petition: "When the esteemed cultural figures signed their appeal to the president, did they actually think about what they could expect of Boris Nikolayevich? That he would....order that journalists who stepped out of line be shot? And to really drive the point in, exile 10 or 20 million compatriots to labor camps?"

The next day, 19 August, the newspaper KOMMERSANT published an extensive investigation of Kobzon-the-businessman's latest move: The article "Shark Hunting" described in detail a very remarkable event. The

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subject is Mezhregionbank [Interregional Bank], which had been going through a serious crisis. As Iosif Davydovich himself told KOMMERSANT, at the end of June the bank's chairman of the board Albert Shalashov approached him and offered that he take his job.

Kobzon actually agreed to take the penniless bank under his wing, and went to the board meeting, but for some reason was not let in. Iosif Davydovich took offense and flew to Cyprus for the opening ceremony of ITB—the Independent Trade Union Bank.

KOMMERSANT is asking the special services to check out the rumors that the bank was opened with money stolen from Mezhregionbank.

One scandal after another.

Russia, Iran Economic Cooperation Plans

954E1481A Moscow DELOVOY MIR in Russian 15 Sep 95 p 4

[Report on meeting with journalists given by Mehdi Safari, ambassador of the Islamic Republic of Iran in the Russian Federation, by Nikolay Seregin; place and date not given: "Neighborhood Eternal, Partnership New"]

[FBIS Translated Text] Russia and Iran have many promising spheres of business cooperation, Mehdi Safari, ambassador of the Islamic Republic of Iran in the Russian Federation, who shared his views and assessments of the development of bilateral relations at a meeting with Russian journalists, said.

A priority direction is the organization of a transport artery across the Caspian. After all, businessmen have now been forced in connection with the difficulties of motor transportation via the Caucasus to avail themselves of a route via Turkey, which increases costs considerably. Iran will very shortly be purchasing in Russia a ferry boat, which will begin runs between Astrakhan and Iranian ports. Agreement was also reached not that long since on an expansion of air traffic between our countries—now the two countries' airliners will make two or three trips a week each, linking not only the capitals but other cities also.

Big prospects are opening up in the sphere of supplies to Iran of oil and gas equipment. Documents on purchases totaling $20 million have been signed, and there is a possibility that this order could be doubled.

There are already workable plans for the joint production of oil in the Caspian. Concerning the actual status of the Caspian, the ambassador of Iran observed that only the littoral countries should be involved in its determination.

Mehdi Safari also mentioned that the parties are actively studying questions of mutual arrears. They are already almost settled. New accords are to be expected in the course of the impending visit to Iran of Oleg Davydov, deputy premier of Russia, and also of the visit to Tehran of the Russian president. The timeframe of the latter has yet to be agreed.

It is perfectly natural that the prospects of Russian-Iranian cooperation in the sphere of nuclear power engineering, which have come to be at the center of international attention, evoked considerable interest among the journalists.

Mehdi Safari emphasized that the contract for the construction of a nuclear power plant in Bushehr that has been signed is just one direction of the development of bilateral cooperation. Some $3.5 billion had in the past been spent on work on the construction of this nuclear power plant, and it is perfectly understandable that Iran aspires to the completion of the erection of this facility— investments in the project will secure the requisite return relatively quickly. Iran is endeavoring to diversify its power engineering just the same as other countries that are building nuclear power plants on their territory. This mutually beneficial project, which has caused a tumultuous reaction on the part of the United States, is not in conflict with any international agreements and accords. It is known also that there are no complaints against the Iranian side on the part of the IAEA either.

We would remind our readers that the contract for the construction of this nuclear power plant had originally been concluded between Iran and the FRG in 1974. The German KWU firm undertook to build in Bushehr two 1,300-megawatt nuclear power plants, and the sum total of the contract amounted to 7.6 billion German marks. But in 1979, under pressure from the United States, the German specialists left Iran, and the construction and installation work was simply left unfinished.

It should be noted that Iran is also displaying considerable interest in other types of Russian mechanical engineering products— negotiations are under way for the purchase of YaK and TU-204 aircraft. The governor of a province of Iran is intending to set up IZH motorcycle assembly at a local enterprise.

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Economic Issues

*1996 Inflation Forecasts Analyzed

954E1488A Moscow FINANSOVYYE IZVESTIYA in Russian 21 Sept 95 p 1

[Article by Georgiy Belov, economist: "The Inflation Lifesaver Is Being Thrown Into 1996"]

[FBIS Translated Text] It became clear during a meeting of the Duma working group reviewing the draft 1996 federal budget that the main problem in the budgetary process this year is the validity of the inflation forecast used in the budget's computations.

When working up the draft 1996 federal budget, Russia's Ministry of Finance used inflation forecast data of 1-1.2 percent a month, which corresponds to the main version of Russia's Ministry of Economics forecast. This version assumes the complete realization of the principal propositions in the government's program and also the achievement of financial stabilization by the end of 1995. Besides the Duma deputies, representatives of the State Committee for Statistics and the Central Bank pointed out the unreality of this scenario. A second version of the Ministry of Economics forecast, which assumes an inflation level of three percent a month, is more realistic.

At the same time, Ministry of Finance and Ministry of Economics representatives defended the inflation level of 1-1.2 percent based on the fact that the detailed calculations in the draft budget were made using this level of inflation. Even in the event of an actual increase in the inflation level above that forecasted, one can legislatively determine a procedure for distributing additional inflation revenue to the expenditure articles.

A similar situation took shape when approving the current year's budget. At the time, an inflation level of 2.5-3 percent a month was used in the calculations. The current estimate testifies that inflation will be at least seven-eight percent a month this year. The Law on the Budget also provides a procedure for distributing the additional income. However, as was shown during the deputies' discussions, the procedure has not been adhered to. That is also why the deputies insisted on a more realistic inflation forecast in order to determine specific expenditure indicators using the maximum possible amount of revenues.

However, a radical change in the already developed draft budget is hardly possible. A detailed calculation made by the Ministry of Finance takes from one to two months. The calculation of a fundamentally new version of the draft budget will completely wreck the budgetary process that is contemplated. The experience from the work of the reconciliation commission last year showed that an insignificant change in the total amount of revenue and expenditures and also in individual articles is possible but no more.

The impression is taking shape that the government is determining the procedure and periods for working up the draft budget in such a way that the legislators can introduce only cosmetic and immaterial corrections.

Prospects for State Budget Revenue Viewed

954E1471B Moscow KOMMERSANT in Russian 12 Sep 95 No 33, pp 22-24

[Unattributed article under the rubric "Privatization": "The Budget Will Get the Money. But Where Will Enterprises Get Investment?"]

[FBIS Translated Text] Having established favorable to the utmost—for federal budget revenue—conditions for selling off state-owned stocks, the government has jeopardized the stable development of the Russian stock market. And with the decline in the securities market, industrial companies may lose one of the sources for financing their development.

The Banking Consortium Idea Has Undergone Considerable Changes....

The banking consortium's proposal to make a loan available to the RF [Russian Federation] Government in exchange for a pledge of privatized enterprise stocks came up for the first time in March of this year. Gradually, the idea was transformed and acquired increasingly definite forms. The final version of the proposal said that the consortium makes available to the government a loan at LIBOR rate plus 1.5 percent. The collateral for the loan should be the stocks of enterprises, a list of which (on the basis of the banks' proposals) will be determined by the government. The loan to the government will be provided by the banks that win a closed bid for the stock of each specific enterprise. Having received securities as collateral, banks, jointly with the state, will organize stock-selling auctions. If the government does not repay the debt, the collateral is sold.

The president's edict "On Procedures for Pledging Federally Owned Stocks as Collateral in 1995" was an interpretation of the banking consortium's proposal. The mechanism of transferring stocks into collateral described in these documents differs considerably (and one must say, not in the banks' favor) from the consortium's proposals.

The substance of these changes boils down to the following. The banks will not enjoy the exclusive right to make loans to the government in exchange for a pledge of stocks. The right to participate in a te

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for the right to make loans to the government will have [words illegible] legal entities: residents, nonresidents, as well as groups of companies. Another substantial difference is that the quantity of stocks which the government will agree to surrender as collateral for loans most likely will diminish. According to GKI [State Committee for the Administration of State Property] acting chairman Alfred Kokh, only 0.01 percent of enterprise stocks kept in the fund will be surrendered as collateral.

....And, as Usual, in the Federal Budget's Interest

The mechanism for pledging stocks as collateral, as set forth in the edict, ensures maximum revenue for the federal budget. Removing restrictions on participation in the auctions (for the right to make loans to the government) will substantially expand the circle of interested investors, which, of course, will become a factor in a more fair stock price formation (see commentary).

In the legislatively formalized idea of loans, of special note is the list of companies whose stocks the government is willing to surrender as collateral. Mr. Kokh pointed out that the banking consortium originally presented a list of 64 companies. At the time, the banks appraised the total market value of the stocks at 8-9 trillion rubles [R]. Now, in Mr. Kokh's opinion, this list may shrink—for several reasons. First, some companies have already been denationalized and do not have a state-owned share in their capital. Second, with respect to some enterprises the government will retain the share of state ownership in order not to lose control over strategic lines of economic development. In KOMMERSANT's opinion, there is also a third reason: The consortium's list included blocks of stocks in which investors other than the banking consortium are interested. Actually, whichever way it goes, Alfred Kokh promised that the list of enterprises will be made public 10 days after official publication of the edict. Which is when it will probably become possible to draw conclusions regarding the criteria of enterprise selection and the prospects for the project's implementation in general.

In principle, Mr. Kokh's statements show that the GKI did study the mood of investors operating on the Russian stock market. The committee took into account the opinion of enterprises that do not want to be transferred under the management of banking structures. In addition, the GKI compared the attractiveness of secured loans compared to selling each security on the secondary market. As a result, another document came out: "The Plan-Schedule for Selling Stocks of 136 Privatized Enterprises in 1995." Some enterprises have been moved from the list proposed by the consortium to the "Plan- Schedule...."

The GKI had information regarding what investors wanted to buy and when. Therefore, it was not particularly difficult for it to compile a list of enterprises to be sold off in 1995. It is another matter what the final result will be (in monetary expression) [words illegible]. The opinion of one GKI functionary is indicative: "We are not asking for a whole lot of money."

Alfred Kokh suggested that total proceeds from the sale of stocks of 136 companies will amount to R4-5 trillion. According to the preliminary estimates of GKI staff, the sale of these enterprises will comprise up to 80 percent of federal budget revenue from the autumn stage of privatization.

[begin box]

Aleksey Yashechkin, deputy chief of the Menatep Bank investment department: The plan-schedule for stock sales is clearly oriented at the banking consortium's proposal.

In my opinion, the second stage of privatization—selling off the stocks of 136 enterprises—will be a success for both the sellers and the buyers. There is no doubt that the GKI has selected precisely enterprises whose stock it can currently successfully sell.

Banks, as long-term investors, will be interested in the stock of cellulose-and-paper plants, metallurgical companies, ports, and steamship lines. It is hard to tell how much demand there will be among financial institutions for TEK enterprise stock. These stocks have high liquidity on the stock market and may be of interest to banks as short-term investment. However, the share of Menatep's investment in such securities is rather small.

[end box]

But Government Interests Diverge From Those of Large Enterprises

Whether the amount the GKI is aiming for is realistic is hard to tell. KOMMERSANT queried several investment institutions, which agreed to provide information on investors' preparations for the autumn stage of privatization, in particular, the sale of stocks of 136 enterprises.

Foreign companies that already have experience in working on the Russian stock market are actively preparing for the autumn sales. Several American investment firms have mobilized more than $450 million to participate in the auctions. KOMMERSANT research showed that such experienced portfolio investors

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as Fleming, Ridgint, Passific, San Antonio Capital, Russian Value, Salcon, Croisis, Firebird, and Cunto have put together a total of more than $500 million. Large specialized Swedish and German investors are conducting negotiations on the purchase of a large block (up to 5 percent) of the RAO [Russian joint-stock company] YeES Rossiya [Russian Electric Power Grid]. Finnish, Czech, and German consumers of Russian paper aim at purchasing controlling shares of their partners—Russian cellulose-and-paper combines. However, an influx of new foreign investors into the Russian stock market is not very likely at this point.

Speaking of Russian investors' activism, of note is first of all the banks' increased interest in stocks of metallurgical companies and timber industry complexes. Banks are positioning themselves for a long-term investment, with the prospect of later selling the stocks to strategic investors. Russian banks are in no hurry to invest in liquid stocks—their current investment in the Russian stock market is estimated by professional market participants to be around $50-70 million.

Thus, the aggregate capital Russian and foreign investors are willing to invest in the autumn stock sale is estimated at $1-1.5 billion.

This means that the State Committee for the Administration of State Property does have a chance of bringing between R4.5 trillion and R8.5 trillion into the federal budget.

What are the expected consequences of a big sell-off of state property? To appraise this, let us look at the current market prices for stocks of issuers included in the Plan-Schedule of Sales.... The list of 136 enterprises may be divided into two groups.

The first group are companies that will not be harmed by the sell-off of stock. Enterprises whose stocks traditionally are not a subject of stock market speculations (small airlines; enterprises in the chemical and light industry and precious metals extraction; small river steamlines; and timber industry complexes) will incur practically no losses. The starting price of small enterprises will not be high and they will be quite affordable for labor collectives or company management, who may buy them out themselves. Stocks of medium-size companies will attract the attention of their strategic partners interested in merging companies and reducing risks. Russian banks are also showing an interest in such enterprises. The comment of Aleksey Yashechkin, deputy chief of the Menatep Bank investment department, is characteristic in this respect: "Russia is still at the stage where one can invest money in small companies (of the aforementioned type—KOMMERSANT) and then start figuring out what to do with them. You just cannot lose." That is, many of these enterprises will only benefit from denationalization. It is a pity that their market value is negligible (less than 10 percent) compared to the value of enterprises in the second group.

The second group are large companies using additional issuance of absolutely liquid stocks as a source of financing. The summary value of such securities, which the GKI is putting up for sale, is estimated at more than $1.3 billion. Stocks of enterprises in the oil, power generation, and telecommunications industry, which attract the greatest interest of foreign participants in the stock market, account for 90 percent of this amount. The estimated demand for them is around $700-800 million. If the discrepancy between the GKI offer and the demand remains, this may bring about a decline in the market value of the stocks of enterprises being sold.

[begin box]

Yuriy Lopatinskiy, specialist of the Grant financial center: The Autumn Sell-Off May "Kill" Stock Market

Perhaps the GKI can achieve the government's goal in selling blocks of stock of privatized enterprises. However, for me it is obvious that property sellers will have to sell securities at a discount of up to 50 percent of the stocks' current value on the secondary market.

Judge for yourself: First, why should investors buy stock right now? At the end of the year the country may be plunged into political instability, and stock values will collapse. Nobody needs this risk. At the same time, the yield from state bonds (without any risk) currently exceeds all conceivable profits from investing in corporate stocks.

Second, investors cannot get their bearings—there is no information anywhere about the operations of most of the aforementioned companies.

Third, investors know nothing about the oil companies now forming. How can one appraise a holding company when you have no idea how the stocks of subsidiary enterprises will be exchanged for the head company's securities?

Fourth, most companies hoping for a successful floating of their stock on the secondary market do not have financial consultants. I am not talking about brand-name Western consultants: Let the issuer bring in a Russian company—many of us have sufficient experience in preparing a stock issue for the stock market.

[end box]

Many of the aforementioned companies are head companies of holding companies only going through the process of formation. Their stocks are not yet on the

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market. Therefore, the first to take the blow will be the already issued stocks of subsidiary enterprises—as soon as conversion coefficients are announced for holding companies' stock. Each market participant will need to appraise the combined property of holding companies, which will determine the depth of the fall in the price of subsidiary enterprises' stocks.

The main danger for the aforementioned enterprises will come not so much from the mere fact of the stock being put up for sale as from the fact that they will be dumped in the market simultaneously. The huge quantity of securities put up for sale at the auctions will break the settled and quite liquid secondary market for stocks of subsidiary enterprises, while holding companies' stock will remain undervalued for quite a while. The situation is made worse by the GKI's intention to conduct, if necessary, additional auctions until all stocks are sold.

In short, the budget will get its due. But the weakening of the secondary securities market may have lamentable results. Enterprises that will suffer from a considerable decline in stock value will experience considerable difficulties placing additional issues of stock. One can imagine what the result will be for capital-intensive companies, which regularly use the mechanism of issuing additional stock in order to invest in production.

[begin box]

Alfred Kokh, acting GKI chairman: We have a chance to achieve the target with respect to proceeds from privatization

The GKI is planning to collect R4-5 trillion from the sale of stocks of 136 enterprises. The best Russian enterprises with a stable financial-economic situation were included in the list. As a result of painstaking negotiations between representatives of these issuers and interested investors, as well as on the basis of market research conducted by the GKI, specialists have drafted a plan- schedule for selling the stocks of privatized Russian enterprises. It is not aimed at any particular category of investors—we are currently selling what can be sold with the greatest benefit for the federal budget and selling it to those who will provide the maximum volume of investment. The GKI's costs in conducting the auctions are minimal, and therefore in the event the auctions are unsuccessful, we will repeat them.

Information about the operations of these enterprises will be distributed by the federal property fund when the concrete conditions for holding the auctions are announced.

As to holding companies currently being formed, I can guarantee that before the bidding is announced for securities of head companies, the GKI will get from the issuers concrete information regarding conversion coefficients for the stock of all companies included in the holding.

We plan to obtain the bulk of the funds from stock sales before 15 December, and the success of this enterprise will depend to a large extent on our professionalism.

[begin box]

Aleksandr Cheporov, specialist of the Russian branch of Merrill Lynch investment bank: The important part for the stock market will be the sale of blue-chip stocks

At this stage of privatization one cannot count on huge foreign investment. The only buyers for Russian securities today are those foreigners who already know Russian risks—counteragent insolvency, and dishonesty on the part of the company's register-holder and administration. That is, only experienced foreigners will be investing in stocks this autumn.

Of course, the secondary market may get hurt by the huge quantity of stocks offered for sale simultaneously. Nevertheless, we believe that foreign participants in the Russian stock market have $400-500 million ready to put into auction purchases. The presidential edict regarding a loan to the government against the pledge of stocks was good news for our clients.

[end box]

Russia Has Not Been Sold. It Has Been Mortgaged

Even repeated reading of the edict "On the Procedure for Pledging Federally Owned Stocks as Collateral in 1995" does not provide clear answers to many questions. For instance, one of the appendices to the document (Compulsory Terms of the Commission's Contract") says that a stockholder may sell it any time after 1 January 1996. And what does one do if the term of stock's assignment as federal property expires not on 1 January but on 1 April or 30 May? Does this mean that the edict is in conflict with the privatization program?

Or take the time the loan agreement remains in effect. The edict says that the contract expires either as soon as the borrower pays off the loan obligation with federal budget funds, or five calendar days after receiving the proceeds from selling the pledged stock. With respect to the latter, everything is more or less clear: The creditor makes his best effort to ensure that the market value of the securities increases, and then sells them and gets his reward (50 percent of the difference between the amount of proceeds from the sale of stock and the amount of the Russian Federation debt). However, none of the lenders is insured against the situation whereby the state, having

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waited until the value of the stock rises, quickly repays the loan and sells the securities, whose value will have risen considerably, on its own.

Neither is it clear how the lender will realistically work with the enterprise. On one hand, the lien holder can vote at his discretion at the stockholders' meeting. However, in this too, a long list of restrictions applies: On a host of principal issues— from reorganization and liquidation of the AO to additional stock issues—the lien holder can vote only "after securing in advance the GKI's written consent."

The greatest number of questions, however, arise from the list of enterprises whose stocks will be pledged as collateral. The GKI has only 10 days from the edict's publication date to work on this list. The only thing that is known is that there will be half as many enterprises as there had been on the list prepared by the GKI at the beginning of August, which included companies whose stocks will be sold at the end of 1996. It is unclear, however, to what extent these lists will correlate with each other.

What is immediately obvious, however, is that the state has set the rules of the game to suit itself. Since realistically the issuance of loans will begin no earlier than the second half of November, for the government they will be practically interest-free (interest will accrue only until 1 January 1996). The interest itself is emphatically low (three-month LIBOR plus 0.5 percent).

The mechanism of repaying the loan also is very convenient for the state. For instance, if the lender gets less money from selling the stocks than the amount of debt, this is, as they say, his problem. It was his responsibility to work better with the enterprise.

Most analysts are inclined to think that nobody intends to repay the loans (by the way, the loan and collateral agreements permit them to be changed them upon mutual consent of the parties). Meanwhile, this will provide the opportunity to tell the voters: "We have executed the budget without selling off Russia. We have only mortgaged it, but we will buy it back any time now."

***Joint-Stock Companies Statute Debated**

954E1427A Moscow EKONOMIKA I ZHIZN in Russian 15 Sep 95 No 36, p 1

[Article by Ye. Sukhanov, doctor of juridical sciences, professor, law school and state university dean, and chairman of the Arbitration Tribunal of the RF Chamber of Trade and Industry: "Whose Interests Does the Law Protect?"]

[FBIS Translated Text] **Joint-stock societies are an essential part of a normal market economy. They are the most effective legal-organizational form of large-scale entrepreneurial activity and differ from the other types of societies and partnerships (companies, corporations) by their more highly developed organizational structure. However, while this is a way to collect large amounts of capital that was initially dispersed among many small holders, the joint-stock society gives too much opportunity for essentially uncontrolled use, by the executive organs, the directors of the society, of the significant property that has been assembled. This is the "dark side of joint-stock business," which lawyers were already warning about at the end of the last century.**

The only guarantee against inevitable abuses and swindling is well-developed and carefully thought-out joint-stock legislation. The century and a half of experience of the most diverse legal orders illustrates this. It is not accidental that joint-stock laws are the most substantial acts in terms of volume, usually running into many hundreds of articles (for example, German joint-stock law contains more than 400 paragraphs, and the introductory law to it has about 50 more). Joint-stock legislation faces two main tasks: defense of the rights of small stockholders (and stockholders in general) and defense of the rights of creditors (third persons, agents of the society). Were it not for the special tasks the status of joint-stock society would not need such careful regulation and could be put directly into the Civil Code (as was done with full and limited partnerships).

After all, joint-stock societies are a variation of associations of capitalists whose members do not take part directly in its entrepreneurial activity, and are not obligated to do so. The large number of them in ordinary joint-stock societies makes it hard even to assemble them for general meetings. Thus, they may in fact not participate in management of the company's affairs; their only interest is in receiving dividends. As a rule the participants are not interested in how the executive organs of the society earn this dividend, and the society's creditors are not informed of the actual property that it has and must deal "blindly" with it while individual stockholders are not personally liable for the debts of the society in any case.

The joint-stock law must consider all these and other situations. Otherwise the joint-stock form will continue to be a "convenient way for smart dealers to extract money from the people's pockets," as G. Shershenevich, the major specialist in this field, wrote early in the cen-

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tury, describing an age of "the most impudent mockery of stockholder naivet by the dealers, the most cynical game with the public's aroused passion for profit." There is no need to speak of the timeliness of these words in a situation where the 1990 Statute on Joint-Stock Societies continues in effect—its incompetent and squalid content only promotes greater swindling and disorder in Russia's developing market economy.

Therefore, the expectations connected with adoption of the draft law on joint-stock societies by the State Duma in the first reading are also obvious. In the press, including on the pages of EKONOMIKA I ZHIZN, this draft law has already received approval. But to what extent does it really answer the hopes of society for a definite improvement in joint-stock affairs?

The task of the developers of the law was made significantly easier by the availability of fundamental rules in Part One of the new Civil Code. It envisions a number of essential and obvious requirements for the formation and activities of joint-stock societies which should be elaborated in the new law. Unfortunately, the authors chose their own "special" path, not considering the need to comply with the rules of the Civil Code recently passed by that same State Duma. What did this lead to?

Let us begin with "protection" of stockholder rights. It is interesting that according to Point 1 of Article 67 of the Civil Code a stockholder has the right to receive information about the activities of his society and to examine its accounting books and other documents. **The draft law on joint-stock societies allows the ordinary stockholder access to the society's charter only, not to accounting documents (Part 5 of Article 11, Point 1 of Article 103).**

To monitor the activities of the society's executive organs European continental law has for a long time used the supervisory council, a permanently operating body of stockholders. This organ, which has exclusive (not transferable to other organs) jurisdiction, is directly envisioned in Point 2 of Article 103. According to Article 79 of the draft the managing personnel of the joint-stock society can be appointed from the members of this very council, and without any restrictions. In other words, the membership of the supervisory council and the board of directors (or other executive organ) can be almost exactly the same. In this situation the managing personnel can successfully begin monitoring themselves, for example "convincing" the supervisory council, which is also them, to give consent to carry out a major transaction in the society's name (but of course, not necessarily in its interests).

The draft law also did not remember the traditional requirement—in Russian law—of the founders of a joint-stock society that they own at least 25 percent of the stock for 2 or more years from the moment of its registration. "Forgetting" about this rule, the existing Statute on Joint-Stock Societies made possible the simple, widely used operation where all 100 percent of the stock is "sold" by the charter members, who purchased it initially, at a price above par value, which allows them to pocket the difference and part with the society, leaving its newly fledged owners to wait for their dividends.

Here is how the draft law "guarantees" the interests of a society's creditors. The basic guarantee that these interests will be satisfied is the society's charter capital (inasmuch as its participants are not personally liable for the society's debts). Therefore the Civil Code set fairly rigorous requirements for the formation and availability of this capital (Articles 99-101), requirements which are well-known, incidentally, in the joint-stock legislation of the developed countries of continental Europe (Germany, France, and others). After many months of debate some of these requirements were adopted by the developers of the law on the insistence of the lawyers invited by them who are participating in formulation of the Civil Code. At the same time a great deal was done to emasculate or "not notice" a number of these requirements.

Thus, Point 6 of Article 66 of the Civil Code establishes precise requirements for the composition of the property contributed as payment into the society's charter capital. It also requires an independent expert examination of those contributions which are not in monetary form and exceed a certain limit (the amount of which, for example 500 times the minimum wage, is exactly what should be established by the joint-stock law). Article 35 of the draft says that the appraisal of these contributions is done exclusively upon the agreement of the society and the stock purchaser. **In this way, for example, the charter members receive an opportunity to contribute some kind of phony "know-how" or similar "non-material asset" as payment for their block of shares, appraising this contribution as high as they like, which is even advantageous to the society. In this, needless to say, they do not care at all what the creditors of such an organization will be able to get in satisfaction of their demands later.**

According to Article 19 of the draft the society can break up into several small societies without the consent of the creditors, transferring all of its debts to one of them and giving the other (or others) all its rights. It is clear that here too they are tossing the creditors a "dummy" and evading all responsibility for the debts.

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The draft does not contain prohibitions on the society's purchase of its own stock, including through the medium of its own subsidiary company. On the contrary, it directly encourages this (Articles 81 and 84). Its authors apparently do not suspect that a practice already exists where subsidiary companies buy the stock of the parent company (at its order) in exchange for transferring to that company equipment and other fixed capital (that is, real property) that is part of the charter capital. It is easy to imagine what the subsidiary is left with after this, or more importantly what is left for its potential creditors and even the ordinary stockholders, whose stock is "secured" by nothing but air. And what tempting opportunities open up for the managing personnel of a society who own their own stock and continue to participate in the voting and continue to compute up dividends!

The subsidiary societies fared very poorly in the draft law. Their status, precisely defined in Article 105 of the Civil Code, is fundamentally distorted in favor of "foreign investors" who are financing the draft law and want the complete elimination of the liability of their parent companies for debts of subsidiaries formed in Russia. After all, the parent company, controlling the subsidiary, can force it to get involved in any kind of risky enterprise without any responsibility for the consequences of its management. Using controlled (subsidiary) companies the parent society can carry out operations that are not always officially open to it—buy up its own stock for needed votes at a general meeting, dispose of the property of a subsidiary company without consideration of the interests of its minority stockholders, get around the prohibitions of antimonopoly legislation, and so on.

To stop such actions the Civil Code envisions joint or subsidiary (supplementary) liability of the parent company for the debts of the subsidiary. **The draft law "creatively elaborates" the rules of the Civil Code in this matter, indicating that this liability ensues "only in cases" where the primary (parent) society "knew in advance" that the subsidiary society would suffer losses as the result of carrying out its instructions (Point 3, Article 6), in other words, the parent deliberately caused financial harm to the subsidiary. Plainly it is almost impossible to prove this in court, and that is what is needed to remove the liability of the parent companies.**

More shortcomings of the draft law can be enumerated. It is important to observe that they are all, as a rule, **social, not technical in nature.** Their presence in the draft law cannot be explained simply by the lack of qualified lawyers among the developers, or by intentional opposition to the position taken by the new Civil Code.

It seems to me that definite economic interests are clearly reflected in its content. It is clear, for example, that the draft law quite consistently follows the line of maximum expansion of the rights of managers, which is typical of contemporary American joint-stock legislation (and, we will add, contradicts the line of contemporary continental, including German, joint-stock legislation to expand the powers of the general meeting and the rights of stockholders). It is no accident that a certain U.S. Professor B. Black took an active, but not open part in its development, writing various "memoranda" on the subject, nor is the negative reaction of certain overseas investors and lawyers representing their interests to Article 105 of the RF Civil Code an accident.

For fairness sake it should be noted that the draft law adopted on the first reading also contains certain rules aimed at improving the organization of joint-stock societies. This refers to the fairly carefully thought-out regulation of the convocation and conduct of the general meeting of stockholders, to the restrictions on carrying out major transactions in the name of the society, and a number of other provisions, but they cannot provide a basis for a favorable evaluation of the draft law as a whole. There are too many omissions, unfinished points, and plain mistakes which lead to the continuance of abuses which even without that are already abundant in our property (entrepreneur) circulation.

It only remains to regret the Duma approval of the conception of this law, obviously caused by the hurry to adopt a series of draft laws "at the curtain" of the summer session and hope for the greatest possible distance from the mistakes made when the draft is finally polished and adopted. Otherwise it can be predicted with confidence that the joint-stock law will not improve the situation in entrepreneurial activity at all.

*Decree on Support for Consumer Rights Protection

954E1402A Moscow ROSSIYSKAYA GAZETA in Russian 7 Sep 95 p 4

[Decree No. 837 of the Government of the Russian Federation, Moscow, 26 August 1995: "On Support of the Public Movement To Protect Consumer Rights"]

[FBIS Translated Text] In order to increase the role of the public in ensuring the implementation of legislation concerning the protection of consumer rights, the Government of the Russian Federation decrees that:

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1. The Russian Federation State Committee for Antimonopoly Policy and Support of New Economic Structures, the Russian Federation State Committee for Sanitary-Epidemiological Oversight, the Russian Federation Committee on Standardization, Metrology, and Certification, and the Russian Federation Committee on Trade:

take measures to render the necessary assistance to public organizations of consumers in the area of granting access to information concerning the results of the certification and expert appraisal of the quality of goods (work, services), of checks on the observance of the rights of consumers and of the rules of trade, consumer and other types of services, and of pricing procedure, as well as to departmental enforceable enactments and procedural materials necessary for the accomplishment by the indicated organizations of work in conformity with Russian Federation legislation concerning consumer rights protection;

enlist representatives of public consumer organizations in work on checking the observance of the requirements of Russian Federation legislation concerning consumer rights protection, public health legislation, and of state standards and rules regarding the conducting of certification, and in the work of the certification commissions regarding the accreditation of certification organs and testing laboratories, as well as of technical committees for the standardization of consumer goods (work, services);

upon the representation of public consumer organizations perform tests for compliance of goods (work, services) to safety requirements in laboratories under their jurisdiction, taking their resources into account;

enlist representatives of public consumer organizations in training measures in the field of consumer rights protection.

2. Recommend that organs of executive power of the subjects of the Russian Federation and organs of local administration:

organize work to protect consumer rights on the basis of the unification of the efforts of organs of executive power and local administration consumer rights protection organs, and of the territorial organs of Russian Federation ministries and departments monitoring the observance of legislation concerning protection of the rights of consumers and of public consumer organizations;

take organizational measures directed to creating the conditions for the broad development of the public consumer movement, render assistance to public consumer organizations in the period of their coming into being and in subsequent work in the area of allocating necessary premises, equipment, and telephone facilities, of setting preferential rates for the lease of the premises they occupy and of telephone service rates, and of granting financial assistance, including through funds coming into local budgets from fines recovered from subjects doing business for violation of consumer rights protection legislation;

assist in directing the attention of the mass information media, including radio and television, to questions of consumer rights protection and in the systematic coverage of this topic.

[Signed] V. Chernomyrdin, Chairman of the Government of the Russian Federation

*Businessman Oleg Boyko on Main Changes to Bank's Policy

954E1447A Moscow KOMMERSANT-DAILY in Russian 14 Sep 95 p 6

[Interview with Oleg Boyko, head of the OLBI concern, by Ya. Skvortsov; place and date not given: "Of All Types of Business, Finances Are Most Importance to Us"]

[FBIS Translated Text] **Commentary**

All sorts of rumors have been surrounding OLBI virtually from the moment that concern was created. An entire "group" of rumors pertains to all possible types of alliances between OLBI and various structures. We have already mentioned the contract between Natsionalnyy Kredit and SBS [Stolichnyy Savings Bank]. Several days ago the Praym Agency announced that documents on the transfer of the departments to joint management have actually still not been signed and, at best, we may be talking about the transfer of departments of Natsionalnyy Kredit to SBS as payment for debts. Moreover, according to information from Praym the credit "hole" of Natsionalnyy Kredit comes to around 200 billion rubles [R]. SBS president Aleksandr Smolenskiy recently came out with the announcement that financial restructuring of the Natsionalnyy Kredit Bank is being planned. An active role in this is attributed to the National Sports Fund which, according to Praym, owns more than 20 percent of the Natsionalnyy Kredit shares.

Many experts tend to assume that the situation with the Industriya-servis Bank proved to be a heavier load for Natsionalnyy Kredit than is being admitted by official sources at OLBI. In particular, that is linked with the debt owed the bank by LLD Association. According to information at KOMMERSANT-DAILY, LLD proposed to settle its debts with shares of the Kvant Computer Plant. According to the experts, shares

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of that plant offer poor liquidity, even though, it is not precluded, that the matter concerned a controlling block of shares, for which it would be possible to find buyers, for example, among the foreigners. As a result the Industriya-servis Bank had to agree to that variant. Then, when the Industriya-servis Bank actually transferred to Natsionalnyy Kredit, the unpaid credits of the LLD also transferred to it. Many experts believe that the recent division of these banks is brought about by the need to "hang" hopeless debts on Industriya-servis Bank, which otherwise would have drowned the entire unified bank.

When the interview with Oleg Boyko was about to go to press, we learned that personnel of the Natsionalnyy Kredit Bank began contacting a number of Moscow banks in search of employment (we are talking about specialists in the field of marketing research). That might be a consequence of a large-scale reduction in force at the bank (some sources cite a figure of 70 percent) or a kind of abandonment of a sinking ship.

The idea of meeting with the head of the OLBI concern, president of the Natsionalnyy Kredit Bank and ex-chairman of the executive committee of the Democratic Choice of Russia movement, appeared as early as last spring, when Oleg Boyko was, so to speak, "on horseback." He was considered a supporter of Tatyana Paramonova's candidacy as chairman of the Central Bank of Russia, in opposition to the position of the mighty ARB [Association of Russian Banks] on that issue. Memory of the loud withdrawal of the "most politicized Russian banker" from the leadership of the DVR [Democratic Choice of Russia] is still fresh (the formal reason for the break was the pro-presidential position of Oleg Boyko with regard to Chechnya). The breadth of interests of that individual is amazing: from the management of large blocks of shares of a number of authoritative newspapers to fast food projects, from participation in the resolution of the question concerning privatization of Sberbank, to the initiative on moving the elections.

The initial contacts of Yaroslav Skvortsov, a special KOMMERSANT-DAILY correspondent, with Mr. Boyko's colleagues convinced him that it would be virtually impossible to find the chief of the OLBI concern in Moscow, especially to get an interview with him. It came to light that Oleg Boyko created a virtual "moratorium" on contacts with Russian journalists, and this interview was the first exception in three months. True, that happened only in September after the recent scandals connected in part with the Favorit Bank, a large block of whose shares was controlled by OLBI and with the closing of limits for Natsionalnyy Kredit by a number of large banks. At the same time talk started with new force about the financial instability and possible bankruptcy of Natsionalnyy Kredit. "There is no longer a unified OLBI concern," some indicated. "The financial restructuring of Natsionalnyy Kredit will begin any day," others observed. Some buyers were even found for a network of bank branches and its headquarters as well. In other words, by the time of our meeting the name of Oleg Boyko was surrounded by a completely different aura.

OLBI Shifts From Quantity to Quality

[Skvortsov] What does the empire of Oleg Boyko consist of today?

[Boyko] OLBI is undergoing a period of reorganization. Quite an interesting process is under way in the country: business is starting to turn into true business. Formerly many of the new economic structures (including OLBI) were mainly engaged in the process of redistributing assets: money was shifting from the state sector to private owners, and property was converted from state property into joint-stock companies or privately owned property, etc. At the same time each one occupied a special niche, received a "commission," without earning money in the traditional sense. Gradually we are shifting to a normally functioning system while business is turning specifically into business. Now it will be necessary to create to produce something.

At a time when on the whole the private economy is growing, a complicated situation has formed in practically all of the large conglomerates. In recent years all commercial structures grew intensively, doubling, and even tripling volumes of operations, assets, and obligations in one year. At the same time practically all of the earned money was spent on internal development. Such a situation made it possible not to make demands that are too high on the organization: there was practically no competition at all. As a result important questions were overlooked, the main one of which is probably management.

Several months ago we decided to break up into smaller units, granting more independence to those subdivisions which could operate without day-to-day management from the center. Actually we are talking about the transformation of OLBI from a peculiar "ministry" into a holding company, where the summit would engage in determination of strategic directions, financing, and development of ideology. As far as the commercial subdivisions are concerned, we are delegating responsibility to them along with the right to make decisions. Such is the transition from communism to capitalism.

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[Skvortsov] In essence this constitutes transition from extensive to intensive development?

[Boyko] Yes, that is correct. By the way, developing extensively we made certain mistakes, mainly on the managerial level. In part, we failed to retain that entire structure in the form in which it was created.

As far as types of activity are concerned, as planned we are increasingly concentrating in the financial direction. We will have to do away with a large number of minor directions: out of the 34 directions existing formerly we plan to concentrate on about five.

Finances Remain Oleg Boyko's Favorite

[Skvortsov] Specifically in what directions are you planning to concentrate your efforts?

[Boyko] The primary—most important—direction includes all types of financial operations. I include in this work with commercial banks which we manage to varying degrees or participate in their joint stock, as well as credit card companies, companies for management of securities, for operations on the stock market, for privatization operations.

The second direction is trading. It is true we are not as pleased with it as before, but it is being preserved. OLBI-Diplomat is a large company which continues to operate, and we intend to develop it.

The third direction is wholesale trade. We are pinning great hopes on this sector. So far it is working out well continuing to grow vigorously without bringing us too much bad luck. We have signed a contract and become the largest distributors of ZAZa and KrAZa products (that direction may also be classified as wholesale trade). In addition to that we have a wholesale-bartering company specializing in the conduct of transactions between Ukraine and Russia.

The entertainment industry continues developing; it is the fourth direction. That, in part, includes theme parks, game-playing machines, computer games, virtual reality, and movie theaters with special effects.

Another important direction—the fifth one—is fast food. Here we are hoping to achieve considerable success. As a result of negotiations that have been going on for several years we obtained a Pepsico license to operate Pizza Hut franchises. Studies conducted by us indicate that in the country it is possible to open hundreds and hundreds of such outlets. We have worked out a five-year program which proposes, in part, the opening of several tens of new outlets. The first two will go into operation by the end of the year.

There are directions which we do not intend to develop. Thus, in the field of real estate we will either merge with someone, or will simply complete the construction of projects that have been started and discontinue any further activity in that field. We shall also get rid of a number of minor directions. We used to have our own printing facilities, recording studios, and even fishing operations.

[Skvortsov] So you are giving priority to activity in the financial sphere?

[Boyko] Yes, we are devoting principal attention to corporate finances, that is purchase and sale, reorganizations, mergers, takeovers of companies. In that area we intend creating an investment bank. In my opinion corporate finances constitute the largest part of the market for activity in which we are well-prepared and know many things, possibly, better than others. We have a number of projects for the Russian Federation and Ukraine, as well as for Eastern Europe as a whole.

[Skvortsov] You spoke of management problems. If I am not mistaken, the case concerning the agreement of Natsionalnyy Kredit with Stolichnyy Savings Bank also involved an exchange of services in the area of management.

[Boyko] Quite correct. With SBS we are currently creating a final mechanism for mutual interaction. Objectively SBS is managing its retail business better than we are. At the same time, for instance, we do not believe that their credit cards are better: here we must find a way to join our credit card systems. In the field of retail business management, however, we decided to utilize to a certain degree the experience of Stolichnyy, which is friendly to us. In other words SBS will receive more outlets for attracting clients while we acquire better management of our retail divisions.

[Skvortsov] You are linked with SBS by long-standing collaboration. One recalls the "non-aggression pact" signed by Natsionalnyy Kredit, Stolichnyy, and Imperial in the autumn of last year.

[Boyko] Those banks of which you are speaking, in various combinations, belong to different consortiums and banking associations. There is also a consortium consisting of the Menatep, SBS, Imperial, Natsionalnyy Kredit, and Natsionalnyy Rezervnyy Bank (bank controlled by Natsionalnyy Kredit—KOMMERSANT-DAILY), which is the principal operator on the national debt market and in the field of claims of the Russian Federation against third countries. I will note that all operations connected with debts and with budgetary matters in general are conducted by this banking group in the most intensive fashion.

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In the modern banking community it is very important to find a common language. The balance so far has been fragile, and there are economic as well as political surprises. Therefore it is important to keep together and we are primarily attempting to build relations with these banks in order to reach agreement instead of competing for any reason.

Natsionalnyy Kredit and the ARB: Old Partners, Bad Friends

[Skvortsov] Speaking about associations and banking unions, let us look at the matter of relations between Natsionalnyy Kredit and the ARB. It is true, there are some serious differences between the two of you with regard to a number of highly important issues, in part, on the question of the appointment of a Central Bank chairman.

[Boyko] Our bank is not active in the Association even though it does retain its ARB membership. You know, there is a group of banks within the ARB which, let us put it this way, to a certain degree usurp it as a mechanism in attempting to attract more attention to themselves and to occupy a certain social or political niche. On one hand we are not maneuvering for a position in order to actively control something within the framework of the ARB. While on the other hand we are seeing an infringement on the interests of other participants of the market in the behavior of the Association leadership.

[Skvortsov] What about the question concerning the head of the Central Bank?

[Boyko] I have a rather ironic view of that. One has heard many times—how can we, the most powerful and influential banks, distance ourselves from the process involved in appointment of the Central Bank head. We have to urgently formulate a position. Each time that ended with a situation where the government refused to recognize us. None of us are capable of really influencing the situation. Therefore such polemics cannot be taken seriously.

I cannot say that we have a serious quarrel with the ARB, just as I cannot say that, dropping everything, I devoted all of my time to having Tatyana Paramonova become chairman of the Central Bank which is what I am sometimes accused of doing. I have no real influence in order to accomplish that. Therefore the press has flattered me: my influence and efforts in that area are greatly exaggerated.

[Skvortsov] It seems to me that you are belittling the role of commercial banks. With respect to some issues bankers can play a perceptible role. Just look at the situation with privatization of Sberbank.

[Boyko] It is not the bank which is active. It was I personally who really conducted a lot of negotiations on the fate of Sberegatelnyy Bank. That is really so. I did that for a number or reasons. First of all, I am a member of the board of directors of Sberbank. Second, we are the largest shareholders in the bank after the government. Third, we have collaborated with Sberbank for a long time, remain friendly toward it, and we are interested in its fate.

A lot of negotiations were conducted with representatives of the government, the Central Bank, and various banks as well. This is a very long and complicated story. It ended with the situation where a decision has now been adopted to the effect that up to the end of the current year there will be no privatization. It is important not to stir up public opinion for it is too important a social factor. On the other hand, the Central Bank, understanding that Sberbank must develop, permitted additional emissions without relinquishing the controlling block of shares, which makes it possible to increase the capital (as commonly known, formerly the Central Bank did not permit this). I will stress once again that control remains with the Central Bank. Before the end of this year there will be no further vain attempts at privatization. Extensive work is under way at present on the creation of a system of deposit insurance, inasmuch as sooner or later it must replace the state guarantee. I hope that such a law will be adopted before the end of the year. Insurance of deposits in all banks, including Sberbank, must be accomplished with the aid of a special federal insurance corporation.

State Control of Banks: What Can One Do?

[Skvortsov] You spoke about the role of the state in the fate of Sberbank. As commonly known, the participation of the government in the ownership of the joint-stock of your bank caused a varied response.

[Boyko] That occurred in the spring of this year when the government purchased a block of our shares, so that 16 percent of us now belongs to the state. The point is that Natsionalnyy Kredit has traditionally specialized in servicing of operations connected with the servicing of various types of federal programs: the financing of industry as well as the servicing of foreign debt, state currency loan bonds, project financing, and many other activities. In order to regulate that process the government decided to establish some control over this activity. For that purpose, 16 percent was sold to the state. In addition to that the bank board of directors now includes a government representative endowed with the right to cast a vote blocking decisions regarding the spending of federal budget money.

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I agree that control over such operations by the government is necessary. Therefore we have ourselves proposed and supported such a form of collaboration. We have not lost our independence since the government controls us only in those sectors where we deal with its interests. As far as government taking control of the banks is concerned, I will observe that the government already has so much control over banks that any more is unthinkable. A license can be revoked in 30 minutes. There are also a thousand and one other ways for the government to "pressure" a disagreeable bank, abusing its power in the most subtle way so that no one even notices.

[Skvortsov] You control a number of banking institutions: Rosmedbank, Natsionalnyy Rezervnyy Bank, Industriya-servis. As far as we know these banks are not currently going through the best of times. Is that a result of the general situation on the financial service market or are there some other reasons for that?

[Boyko] Both. This is a manifestation of the overall situation (everyone is having a hard time right now). On the other hand, we have probably had less luck than most: we have more banks than others because of which the situation is more noticeable. Of course, it is impossible to blame everything on the general economic situation and the crisis. Either mistakes were allowed to happen or there were abuses by the managers of those banks where the financial situation is unfavorable. To our sorrow we did not engage in their day-to-day management and were unable to prevent that in time. Unfortunately responsibility is now being placed on us.

It is necessary to remember, however, that we are shareholders just like all the others, and have lost our money as well after investing in those structures. We have also been punished for our naivete. Unfortunately, a number of cases (primarily this pertains to the situation with the Favorit bank) include so-called "unfair competition," and various rumors are circulated about us with the aid of which we are being blackmailed. The depositors also find it easier to blame someone.

[Skvortsov] Concerning the rumors. They say that OLBI-Diplomat is having troubles.

[Boyko] Rumors—that is another topic. Not too long ago, a number of newspapers—VECHERKA, MK, IZVESTIYA-EKSPERTIZA, and KURANTY—published information that OLBI-Diplomat is on a list of firms being investigated by the Ministry of Internal Affairs of the Russian Federation. We made an official inquiry, and the Ministry of Internal Affairs officially advised us that there were no investigations nor are any being planned as there is no reason for that. This report was a falsification submitted by those who are waging a campaign of discrediting us.

As far as the situation with Favorit is concerned, yes, a rather unsavory situation did develop there, but not one of our people were working there or occupied any management positions, we have never delegated anyone there. The people were told that it is simpler to blackmail us since we have more money.

It is quite clear that a similar campaign has been conducted on the pages of SEGODNYA as well. This does not even need confirmation; it is sufficient to point to what they are writing about us. I am already tired of arguing on that topic: they write, let them write. They will not get away with it. I no longer wish to respond. I believe that soon they will appear simply ridiculous. They have clearly shown themselves as a mouthpiece of certain very specific formations. The more they write, the clearer it is becoming that they are doing so on orders.

Why OLBI Does Not Like Journalists

[Skvortsov] To what degree does the position occupied by the newspaper SEGODNYA with regard to you reflect the relations between Natsionalnyy Kredit and Most-Bank?

[Boyko] We have no relations with the Most group at all. We do not collaborate or cross paths anywhere. Most-Bank and Natsionalnyy Kredit never were competitors and are not now.

To all appearances this is an old story, when it was still possible to cross paths on the political arena. Today, however, we have eliminated all of our political exercises almost totally. Therefore we have no official complaints against it; the only thing is that there is some information that they are continuing to inspire a certain part of the press in that regard. As long as we cannot prove this, we are not voicing any official complaints.

[Skvortsov] You are showing increased interest in the mass media. NTV, large blocks of shares of such newspapers as IZVESTIYA, KOMSOMOLSKAYA PRAVDA, AIF, your idea concerning the creation of your own mass media.

[Boyko] About two months ago I placed a moratorium on contacts with the domestic press. I did so for a simple reason. The point is that any interest of commercial structures in the press is connected with an aspiration to establish some influence in society if your business is politically oriented. We had our own bitter experience and have taken quite a few lumps for our political activity, are still taking some, and will apparently continue to do so for life. We would, however, like

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to rid ourselves of that label since this is a thankless sphere.

[Skvortsov] Do you remain a member of the board of directors of IZVESTIYA?

[Boyko] I do, even though I have never attended a meeting. One, of course, does not want to abandon the aura of a Russian Berlusconi, who controls the press, but it will be necessary to admit that that is far from the way it is. We are presently doing everything possible in order to reduce all discussions to a zero.

I will note that there really was a moment when on the wave of a general economic upturn (including our own) we became fascinated with the idea of "influencing policy," creating political forces, "rallying," and protecting "our own government" and the president, "racing in the vanguard of society, shaping public opinion and political consciousness and influencing all processes that have ever existed." That task proved to be somewhat more complicated than it appeared at first.

Today all of that is more or less understood. For some there is room to retreat while for others there is nowhere to go—"Moscow is right behind." To many a political IOU has been issued and too much has been paid for them economically. Thank God we do not face such obligations. Having been burned, we can calmly retreat to previously prepared positions. There will be no further attempts by us to monopolize the press so the press can sleep peacefully.

Oleg Boyko Does Not Plan To Betray the President but Does Not Intend To Get Into Politics

[Skvortsov] Let us shift to your political interests. Tell me, what was really behind your break with Yegor Gaydar and "The Democratic Choice of Russia" movement?

[Boyko] The point is that it does not matter whether we are more or less politicized or not politicized at all. We do feel sympathetic toward the president who is there and the government that exists. We believe that with regard to the main issues they are following a proper course.

The president may be criticized and we are criticizing him no less than others for various positions. With regard to some positions, we are quarreling with him, attempting to save the day in general. It is far more important for the country to gradually come out of that economic and political quandary in which we find ourselves. Therefore when some of Gaydar's responsible functionaries began to rock the situation with their behavior, they came into contradiction with what we have always supported. Our positions became incompatible. In response I was forced to voluntarily resign my post. There are no other differences between me and Yegor Gaydar. In general I consider him to be very useful to the country and quite simply a gifted individual, but the Democratic Choice of Russia and Gaydar are two completely different concepts. The Democratic Choice of Russia is a complex aggregation, full of people, unfortunately, including democratic extremists as well.

As far as Boris Yeltsin is concerned, show me another individual who would assume so much responsibility, tolerate so much abuse and slaps in the face for his decisions which have objectively moved the country forward. There might be a better president, but you will have to show him to me. Of course, it would have been possible to have avoided several mistakes and resolve some issues better, but everyone makes mistakes. We believed and still believe that the power that exists at the present time needs to be polished, and it is necessary to change the technical staff, removing those who do not know how to work, but it is not necessary to rock it as a position, as a concept. That must not be done under any circumstances. Therefore all those who are trying to pull it down, to destabilize the country, are bad for us. Economically irreversible processes are taking place, a middle class is forming, a new attitude toward labor is forming, and people are learning to live under capitalism. Therefore it is very important to get a breather at this time—a year, two, three, or four years. A different kind of public opinion will form along with a new class.

What is most important is stability, including that for the business. Big companies cannot exist at all when it is one thing today, something else tomorrow. A more or less clear policy is needed. The government cannot be changed each year. Everyone, however, wants to show themselves as new state leaders. What results is reshuffling, mayhem. There is no doubt that things could be better, and they will be.

[Skvortsov] Do you continue to support the positions held by Stabilnost and favor changing the elections?

[Boyko] Frankly, I express that thesis differently than what appeared in the press. I said that if the opinion forms in society that elections can be changed without harming democracy, that would be good. Attempts to artificially move the elections contrary to public opinion would lead to chaos, coercion, and a civil war. Coercion would undoubtedly lead to a disintegration of the legitimacy of presidential power.

[Skvortsov] Do you plan to take part in the forthcoming parliamentary elections?

[Boyko] Under no circumstances.

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[Skvortsov] Are you going to speak in support of certain candidates?

[Boyko] I will provide moral support for candidates, patting them on the shoulder and saying: "Hang on." But only in that way. I will certainly not run myself. I will probably make no monetary contributions or solicit any. We will perform no more political functions for politicians.

[Skvortsov] But whom do you like?

[Boyko] It is known that we are most sympathetic to the Viktor Chernomyrdin bloc, not only because we have known him well and work with him. He does not oppose either democratic ideals nor the course toward liberalization. That is the most serious of the viable and constructive forces. It is most likely that we will support them. Therefore they can count on our moral support.

[Skvortsov] You are regarded as a highly politicized banker. At the same time many of your colleagues believe that if a banker goes into politics that means the affairs of his bank are so poor that he cannot "surface" in any other way. If the situation at the bank is normal, then there is simply not enough time to engage in politics. Do you agree with such reasoning and what should the relationship between politicians and bankers be in general?

[Boyko] As an experienced and a long-suffering individual in that area I can now say that political activity in any perceptible form or amount detracts from life. It is not attainable in a facultative manner. If you are serious about politics, you will simply not have time to do any serious business. That is the way it is.

Returning to the concept of a banking community, I must note that banks should have their own organ, their mouthpiece, and their lobbyists who fight for their interests, specifically by lobbying and not by political means. The sooner lobbying is accepted as a tool, the easier life will become because a banker at the head of political parties is just too much.

Nevertheless bankers must participate in the life of the country, probably, more actively than other citizens. They bear more responsibility than most of the citizenry. Vast possibilities are concentrated in their hands and the life of the country depends to a great degree on their decisions.

The bankers must always steer the political course of the government toward the conservative side. Financial circles never allow adventurism. Therefore they must influence policy, but in a civilized fashion, without replacing political blocs, parties, and so on.

Paradoxes of Oleg Boyko

In the past newspaper carried columns such as "Speaking About Them," "Profiles," and "People." They included some news and often just gossip about the famous of this world. I believe if these columns existed today Oleg Boyko would become one of their favorite topics. Really, it is difficult to find an event of any significance on the financial market whose participants could get by without mentioning that name. A phrase uttered recently by an important banker: "As far as Boyko is concerned, he will never be allowed to drown," makes one think that this hero is turning into an anthology.

In the course of our conversation I asked Mr. Boyko what kind of an image he is crafting. It appeared to me that Oleg Viktorovich was genuinely surprised: "Well generally, none at all." It is true, in the flow of all sorts of information on him and his holding company, facts "planted" by OLBI itself are seen very rarely. When one of Mr. Boyko's colleagues does attempt to make some announcement, as a rule, it is commentary on information already disseminated by someone else. For the sake of fairness let us note that Mr. Boyko's assistants have more than enough such work as well.

During the interview Oleg Boyko did not dispute the principal tenets of his opponents: OLBI really is going through a period of restructuring; most of the business directions proved to be unprofitable, and some even damaging; part of the branches of Natsionalnyy Kredit really will be sold to other banks (their number will decrease from 22 to 16 and the possible buyers are Inkombank and Rossiyskiy Kredit). But he is not making a tragedy out of the situation which has formed: the leadership knows about the existing problems and the "ship" continues sailing on its designated course maneuvering between reefs that are encountered. The opponents, however, interpret the indicated facts as a crisis of the OLBI system.

It seems that the truth, as always, lies somewhere in between. Apparently only the further development of the situation will put everything in its place.

***Experts Discuss Reasons for Crisis in Banking System**

954E1415B Moscow DELOVOY MIR in Russian 12 Sep 95 p 4

[Report on meeting of the Public Expert Council on Banking Legislation by N. Ilina: "For Some Reason We Are Always at Different Sides of the Table"]

[FBIS Translated Text] **According to the laws of dramatic art, the main condition for the tragic element of a situation is when both parties to a conflict are**

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right in their own way, but their contradictions are irreconcilable. The discussion about the reasons for the crisis situation in the banking system, which was held at the meeting of the Public Expert Council on Banking Legislation, in which representatives of commercial banks and their associations in the RF Central Bank took part, left precisely such an impression. The meeting was held by the Analytic Center of the Federation Council and its main goal was, through an analysis of existing legislation and the present crisis situation, to find an acceptable way of getting out of it and points of contact.

LAW IS STRICT, BUT IT IS LAW

Vyacheslav ZAKHAROV, vice-president of the Association of Russian Commercial Banks

The present complex situation, in which banks are, is due to many reasons. However, there is one problem common for all. It is banking legislation. Complaints that there are many blank spots in it are expressed often. The chief thing, however, lies not even in this, but in how at least what we have is fulfilled.

Four months have passed from the time of entry of the Law on the Central Bank into force, but to this day there is no chairman of the Central Bank, although in the law there is a clear entry on this score. There is no national banking council, which is also directly provided for by law, in which representatives of both legislative and executive bodies and of commercial banks should participate.

At the insistence of the Association of Russian Banks and many commercial banks a statute to the effect that the Central Bank, before the adoption of the most important decisions of a normative nature, must hold consultations with commercial banks and their associations was introduced into the law. However, I can say with all responsibility that as of 4 May—the time of entry of this law into force—this rule was not observed by the Central Bank even once. I would also like to talk about one law adopted by the Duma and signed by the president. It concerns the writing off of the debts of banks, which issued credits to the agro-industrial complex. Even the Federation Council drew the attention of the government and of the Central Bank to its improper fulfillment: Banks, from which live money was written off, instead received treasury bills—more accurately, they should receive them!

Or let us take the nonfulfillment of budget obligations by the state. It does not finance state orders and enterprises of the defense complex cannot return the received credits.

Of course, everything can be understood. This is due both to the state of our economy and to the state budget deficit, owing to the fact that taxes are collected poorly. However, what turns out? You—commercial banks—fulfill your obligations, but when they owe something to you, they answer: Excuse us, there is no money. There is a need for an efficient observance of obligations by all: citizens, banks, firms, the Central Bank, and the state.

Aleksandr FILIPYEV, deputy chairman of Oneksimbank, member of the public expert council

Under the law the Central Bank heads and manages the country's banking system. Commercial banks would also be ready and glad to accept it as a partner. But, in fact, we are always at different sides of the table. Let us take the question of the norms of mandatory reservation, with which we have tried to deal for a long time. There was a tremendous explosion in spring and everything was discussed at various levels. As a result, a promise was made to establish a commission with the participation of the largest commercial banks and experts of the Central Bank and to prepare a new plan of instructions on mandatory reservation. However, at various conferences the Central Bank systematically twists all proposals in order to leave the existing norms, procedure, and methodology and does not intend to retreat even one step.

TRUST FOR ONE NIGHT

Aleksandr SOKOLOV, president of the Mosvodokanalbank

I see the main reason for the banking crisis in the fact that in Russia there was no helsman—a normal economic development program—and there is none. Responsibility should not be placed on the Central Bank alone. It is only the conductor of government policy and it does what is indicated to it. No matter who the head of the Central Bank may be, everything does not depend on it. Our leadership itself does not know what to do.

Vladimir SOFRONOV, deputy chief of the Administration of Research and Forecasting of the Main Administration of the Central Bank in the City of Moscow

What we observe now is the transition of the latent phase of the liquidity crisis of the banking system into an apparent form. Negative changes in the structure of bank assets were observed last year. First, the share of overdue loans in the total volume of credit investments is growing. Now it makes up approximately 16 percent. On the order of 43 percent of the Moscow banks have overdue loans. As is well known, during the appearance of a crisis situation the volume of interbank credits

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increases sharply. During the second quarter of 1995 it doubled. In such a situation a poor liquidity even of an insignificant group of banks can spread to the entire banking system, which happened on 20 August.

A distinctive degeneration of the interbank credit market is taking place: Almost two-thirds of it are confined to themselves. These credits do not get into the real sector of the economy.

Sergey VASILYEV, vice-president of Tveruniversalbank

The present crisis could be forecast quite a long time ago. Whereas semiannual and three-month credits were quite often encountered on the interbank market even half a year ago, a month ago more than two-week credits did not exist at all. All banks saw this situation, followed it, and understood that it was being aggravated every day and the value of money was dropping. It is strange that the Central Bank did not pay attention to the situation. During the last two or three weeks before the crisis virtually the entire interbank consisted in "overnight."

The reports, which banks keep and submit to the public and to the Central Bank, are either obviously unreliable or evoke distrust. One fine day everyone suddenly stopped trusting each other. Bank balances must be checked strictly. This is no longer such a complex problem, but the Central Bank does not engage in such work.

V. ZAKHAROV

I have been hearing for half a year: "The Central Bank is developing an early reaction system," but the present situation has shown that nothing is ready.

However, commercial banks themselves are to blame. They have exceeded the extent of the permissible risk.

IF YOU GO STRAIGHT, YOU WILL LOSE THE HORSE

S. VASILYEV

In our opinion, the present situation is not catastrophical for many banks. The suspension of the market has led to the need to sharply restructure assets: To return part of the credits for the replenishment of liquidity and solvency. Many, in any case large, banks have largely solved this nontrivial problem in order to live in the absence of the interbank market. However, to what does its absence lead? First, in the very near future, apparently, the quite large-scale crediting of industry will stop and, second, no one will put state treasury bonds on the market. Therefore, problems concerning the closing of the budget will arise for the Ministry of Finance. The Ministry of Finance is lucky that these days tranches of state treasury bonds put up for sale were not used to cover old ones. When old state treasury bonds are paid off and there is no money, banks will not want to buy them—money will have to be withdrawn from the budget, from real tax revenues.

A. FILIPYEV

In the crisis situation the Central Bank plays the role of a benefactor. From the multitrillion reserves, which, in fact, it took away free of charge from commercial banks, it offers assistance to them. First, in a meager amount as compared with the volume of centralized reserves (after all, this is a reserve fund, which should be applied in such a situation), and second, at 180 percent. This is simply a fantasy! Such a rate does not exist at the interbank! In order to work it off, banks are forced to extend credit not to industry, but to street vendors, who carry small goods in trunks—such rates are only within their powers.

Yes, the Central Bank bought back a large volume of state treasury bonds on the market. However, they were bought up at the market at dumping prices—not at all at those at which they were handed over to banks. Such an openly speculative operation hardly does honor to the country's Central Bank. So long as the Central Bank and commercial banks act as antipodes, it will be useless. Nowhere in the world does the Central Bank set itself against commercial banks and stand by itself, not associating with and not consulting anyone.

V. ZAKHAROV

With regard to specific measures, it is necessary to lower mandatory reserves and withdraw internal risk reserves from taxation. Above all, the Central Bank must work out a program for the stabilization of the credit system.

V. SOFRONOV

Measures to stabilize the banking system should include both immediate ones, which are directed toward the localization of the banking crisis and the restoration of trust in this system, and strategic ones.

Immediate measures represent the continuation of the Central Bank practice to grant centralized credits to banks, primarily to those that deserve trust, a sharp increase in auction credit, possibly, the holding of an extraordinary auction, and the mutual offsetting of interbank debts. The help of commercial banks is needed here, since today neither the Central Bank nor the Main Territorial Administration has objective information on debtors and creditors of commercial banks.

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Now about strategic measures: There is a need for the activation of Central Bank operations in credit areas of interbank credit and for the intensification of Central Bank positions in the procedures of the change of bank owners. This will make it possible to prevent the domino effect and to stimulate the concentration of owners of commercial banks in sectorial and regional directions most promising from the point of view of national economic priorities. This can also be viewed as an instrument of control of the criminal situation in the banking sphere. Furthermore, measures should include the introduction of the collateral loan system. A guarantee of first-class securities, primarily state ones, is needed. The base of mandatory reservation must be reexamined.

Jointly with banks it is necessary to work out a method of early detection of symptoms of a deterioration in the situation of banks and to introduce an official system of notification of the crisis situation in individual banks for the purpose of its localization. At the same time, in this situation the Central Bank could act as a guarantor of the repayment of debts of the bank that has found itself in such a situation by accident, but nevertheless fulfills normatives.

It is important to bring the accounting method closer to western standards and to introduce a unified reporting system, a guarantor institution, and a system of insurance of bank deposits (not only of the population's deposits). We also consider it necessary to adopt restrictions for credits issued to bank owners. They exist in many civilized countries. It is no secret that in our country many bank owners abuse the situation. Here is an incomplete list of our proposals.

NOT ONLY GOODWILL OF THE CENTRAL BANK AND THE COMMERCIAL BANK

Konstantin KUZMIN, general manager of Promradtekhbank

It is interesting where our 16-trillion mandatory reserves are. From the Central Bank budget money is driven to Chechnya and the government is credited with ours? Everything that Central Bank representatives say here has been known for a long time: We will improve reporting a little, we will lower reserves a little... It is not a matter of this. Why do they not pay attention to the opposite approach to such two problems as the Chechen problem and conversion? How is the former solved even though Chechnya has not been envisaged in the budget at all? If there is no money in the budget, it is supplied by commercial banks at agreed interest rates against government security. When the budget is replenished, banks receive compensation—for the entire year, efficiently, and continuously. And there is conversion. Against whose guarantee? That of a commercial bank. The state gives money from the budget for conversion and the commercial bank is responsible for it. One simply cannot imagine a more paradoxical situation.

T. BATYREV, deputy director of the Legal Department of the Central Bank

No matter what area of Central Bank activity one takes, without fail one encounters either contradictions in existing legislation, or a conflict of interests.

It is necessary to set priorities at the level of federal policy, primarily tax policy, in order to make the area of the real economy more attractive for credit investments.

V. SOFRONOV

Now the banking system has two paths. The first—to continue the existing course, which will lead to the fact that banks will be able to finance a sharply limited range of sectors, primarily those connected with foreign economic activity. This will signify the further primitivization of the Russian economy and intensification of its raw-material export orientation. The second—to be guided not by momentary interests, but to work on the establishment of a balanced national economic structure. I do not make appeals to commercial banks, because I understand that the realization of the second path is impossible without clear priorities, which should be worked out primarily by Russia's government.

*Central Bank Rules Help Debtors Evade Payment

954E1463A Moscow IZVESTIYA in Russian 20 Sep 95 p 2

[Article by Yelena Vishnevskaya, journalist: "Central Bank Helps Debtors Avoid Paying Back Money to Creditors"]

[FBIS Translated Text] Instructional Letter No. 187 of the Central Bank of Russia, signed by Tatyana Artemova, deputy chairman of the Central Bank, astonished lawyers and compelled bankers to think about the value of their own life.

The new procedure for repaying debts described in the instructional letter has already been in effect for 20 days. During this time, financial experts are saying, many banks that suffered from a failure to recover credits in the days of the financial crisis, but who had a chance of getting on their feet once again, simply did not succeed in doing so. This occurred because the instructional letter, whose author the bankers believe to be Tatyana Artemova (it is her signature that is on the document),

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gave the right to debtor-banks to decide for themselves whether or not to repay credits taken from colleagues.

Previously, before the appearance of the instruction, this was the procedure. One bank receives credit from another, and the creditor bank sends notarized documents that confirm his right to receive the money to the local clearing center (RKTs) of the Central Bank of Russia. If the end of the credit term is approaching and the debtor bank still has not settled the account, the RKTs writes off the authorized sum from the debtor's account in favor of the creditor. If the debtor's account has no money, the RKTs takes it under control, and the first resources that come into the account go toward settlement of the credit. This system, even though it was, in fact, a so-called "number two card index," which our banking system inherited from the past, made it possible to observe fairness in accounts.

The letter under Tatyana Artemova's signature practically "exempted" the Central Bank from performing the control function, giving it the role of simple watchman: Now the RKTs transfers documents that confirm the right of a creditor to get back money and interest to the address of the debtor, who is supposed to settle the debt in a voluntary procedure. This formulation only arouses laughter among bankers. In the opinion of the Association of Russian Banks (ARB), no one will voluntarily execute the indicated decision in a majority of cases. However, the bankers are laughing through their tears—after all, most frequently the bank has a notary verify only one copy of a contract, which the RKTs sends to the debtor. It is enough for the latter to "lose" this document and no one will ever be able to return the money in a legal way. After the Bank of Russia on its own wishes withdrew from control, only the court could resolve a problem, and it, as is well-known, requires a notarized document, which indeed can be "lost." Bankers are beginning to think about how much their life is worth—according to their predictions, the mediation of killers in the repayment of credits could become a norm of life.

However, legal experts hope to restore justice. The juridical service of the ARB believes that the letter signed by Artemova violates five articles of the GPK RSFSR [Civil Procedural Code of the Russian Soviet Federated Socialist Republic], an article of the Arbitration Procedural Code of the Russian Federation, an article of the Basis Legislation of the Russian Federation concerning the notariate, and an article of the federal law On the Central Bank of the Russian Federation. The ARB has appealed to the leadership of the Procuracy General of Russia with a request to take procuratorial measures in connection with the provisions contained in the letter signed by Artemova.

The Central Bank of Russia has apparently realized that it did something that was not quite right. The management in the main administration of the Central Bank of Russia for Moscow conferred intensively for several days on how to correct the situation. In the end it came up with nothing better than to put the blame on the executors of the instruction of the Central Bank. Probably, the scapegoat will be the manager of the clearing center of the Bank of Russia. Tatyana Artemova, deputy chairman of the Central Bank of Russia, who signed the document, apparently will remain in the background.

Why did the Central Bank help those on the verge of bankruptcy because of their own mistakes avoid a crash at the expense of conscientious banks? Now in principle it does not matter who will be punished. The confusion that started after the appearance of the ill-fated instruction complicated the resolution of postcrisis problems for many honorable banks.

*Interbank Crisis Linked to Investment Bank Restructure

954E1400A Moscow KOMMERSANT in Russian 5 Sep 95 No 32, p 14

[Article by Vladimir Milovidov: "Stability in Exchange for Ownership"]

[FBIS Translated Text] **The crisis on the interbank market is the result of the overall restructuring of the investment market and reflects the growing pains of the new economic system.**

The State and the Crisis: Save Not the Banks, But the System

The first thing that needs to be noted as a clearly positive trend is the government's attempt to use economic and not administrative, prohibitory measures to stabilize the situation in the banking sphere. For Russia the desire of politicians to regulate the situation through the market mechanism (required reserve norms, Central Bank loans, and the purchase of state securities from the banks) is quite a reassuring event by itself. However, the possible negative consequences of the state's participation in regulating the crisis are rooted precisely in this.

Western experience rather clearly indicates that protracted and intensive support of financial institutions by the state (insuring of deposits, issuing of loans) leads to an additional burden on the country's budget and eventually the positive influence of the stabilization of the banking system on the economy is diminished due to the negative consequences of the growth of budget expenditures. In principle, state aid to the banks is then limited

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by the set of instruments the State Bank has directed to the regulation of the money supply. The measures include "special emergency loans" and the purchase of securities on the open market. Of course, the insuring of deposits in commercial banks plays a special role.

All these measures are not directed to the rescuing of a specific bank. They will add to the stability of the banking system as a whole. Special measures are used only in two cases. First, when a very important bank, whose role in the economy is so great that its ruin could end with collapse for the economy as a whole, appears to be on the verge of ruin. Secondly, when the unstable situation involves a significant portion of the banking system.

In all the remaining cases they prefer to rely on market mechanisms. For example, when such U.S. banks as Citicorp in 1990-1991 and Wells Fargo in approximately the same period experienced financial difficulties, neither one of them was granted financial assistance from the state. The last scandal in the financial world, connected with the collapse of Barings, one of the oldest banks in Great Britain, has been successfully extinguished by its absorption by the Dutch bank ING.

When in the United States in 1991 bank bankruptcies took on a mass character, the state decided to toughen the lost deposits compensation requirements. Only in certain developed countries, such as Italy and Spain, does serious support of the banks on the part of the state remain, but only because the share of state capital in the banking system is very high. Hardly in the United States, Great Britain, Germany, and, of course, in Russia will any of the bankers anticipate with pleasure an increase in the role of the state as a direct owner of banks. The unique agreement, under which a certain stability is exchanged for control over property, is hardly an equal and expedient one. Moreover, it should be borne in mind that the Western banking systems have already taken shape and have developed to such a degree that they can develop measures for protection from economic recessions and crisis situations.

The Price of Rescue May Be Great

In Russia, despite the fact that commercial banks have existed since 1988, it is too early to talk about a developed system of banking institutions as a whole. Under such conditions one cannot talk either of complete support of the banks by the state or of the complete rejection of assistance. Experience in the economic regulation of crisis situations on the financial market is just being accumulated in Russia and that is why the danger of error is great. It may prove to be that the price of preserving large-scale banking structures is too great for the economy as a whole. The issuing of loans to banks that have run into the problem of illiquidity will result in throwing additional money into the economy, which could have an immediate effect on the level of inflation and the rate of exchange. The banks that have obtained loans will use them to fulfill their short-term obligations, but the recipients of the money, frightened by the unstable state of the interbank market, will hasten to invest funds on the foreign exchange market where, even within the framework of the foreign exchange corridor, one can make quite a good profit on the short-term fluctuations of the exchange rate. In this case the Central Bank will again be forced to use reserves to keep the ruble within the bounds of the corridor, which also will result in an increase in the money supply.

It would be ideal for the state if the money obtained by the banks went for the purchase of state bonds. Moreover, which is important, at auctions, i.e., directly from the issuing bodies. At the same time it is obvious that the sudden throwing of money onto the GKO [state short-term bond] market will influence their earning power. Destabilization of this market is no less dangerous, since the banking crisis will acquire an even broader character in that case. In addition, the Central Bank buys the state securities belonging to the banks as an instrument for maintaining the stability of the banking system. Under these conditions it essentially turns out that the state simply gives a free loan to the banking system as a whole so that the money, having gone through several banks, returns to it at the state bonds auction. A redistribution of the obligations of the state and the banks results and a financial pyramid is in fact created, in which the chain of debtors is simply lengthened but no real change in the payments situation occurs.

Today very many industrial enterprises are potentially insolvent. Of course, the large banks can cope with newly developing debts through the turnover of funds and adhere to the terms of their own payments. However, this puts the entire banking system into a state of nervous anticipation of a new crisis, and this alone is destructive, since it reduces the investment activity of all participants in the financial market. One should add that many banks experiencing a shortage of liquid funds serve important clients to one degree or another—from large-scale enterprises to the Moscow Government. The complications of the banks can become the complications of their clients and, consequently, also of the state which, by helping the banks, in fact helps itself. All this means such a complication of financial flows that only a single step remains before a sharp inflationary leap and a new foreign exchange crisis.

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It probably would be correct to talk not about the localization of the interbank market crisis, on which until now the government and to some extent the banks insist, but about the slow liquidation of crisis conditions in general. Restoration of the normal investment process will become the firmest basis for stabilization: Investments that revive production will come to these same banks to their settlement accounts and help the banks with monetary turnover and liquidity. The program for getting out of the interbank crisis should be broader and less oriented to local and direct financial assistance, but more connected with the creation of favorable macroeconomic conditions for investments as a matter of principle.

***Russian Metallurgy's Future Gloomy**

954E1483A Moscow FINANSOVYYE IZVESTIYA in Russian 21 Sep 95 pp 1,2

[Article by Aleksandr Krotkov, journalist: "Metallurgists Expect Sharp Production Decline in October."

[FBIS Translated Text] The unprecedented decline in the level of profitability of export operations in the metallurgical industry of Russia (from plus 28 percent in May of this year to minus 20 percent at the end of September) may evoke a 30-35 percent curtailment in production in this sector already in October, announced Deputy Chairman of the Russian Committee on Metallurgy Leonid Shevelev.

The Committee on Metallurgy explains the decline in profitability of export exclusively by the introduction of the currency corridor in the country in spite of continuing inflation, and the corresponding increase in expenditures for metal smelting. Thus, according to Shevelev, iron ore in Russia has increased in price by 180 percent, coal—by 220 percent, and electrical power—by 237 percent. At the same time, the exchange rate of the dollar declined in Russia by 13 percent during this period. Meanwhile, the cost of metal on the world market has remained unchanged.

As a result, the total losses incurred by exporter plants, according to the estimates of the Committee on Metallurgy, have approached 17 trillion rubles (R). The amount of loss is determined by the scope of export operations. Today Russia is the second largest metal exporter in the world, after Japan. Of the 50 million tonnes of metal which we smelt per year, we sell half abroad—primarily to China and other countries of Southeast Asia. The export earnings from the sale of metal account for one-third of the country's total sum of export. Last year these earnings exceeded $10 billion. This year, there were expectations of receiving over $12 billion.

However, the obvious unprofitability of this article of export makes the receipt of the above-mentioned sum problematic, to put it mildly. Moreover, in case of cessation of deliveries of metal abroad, in accordance with the concluded contracts, Russian manufacturing plants would be obligated to pay 100 percent of the forfeiture for each tonne which they fail to deliver.

In order to at least somehow make life easier for the metallurgists, the President of Russia, by his edict of 31 August, reduced export duties on non-ferrous metals by one-third, and on ferrous metals—by one-half. These customs benefits, in the words of the leaders of the Committee on Metallurgy, have given the sector a benefit of R380 billion which, naturally, is incomparable with the R17 trillion in losses.

Today the metallurgical plants, together with their sectorial committee, are striving to achieve for themselves a special currency coefficient. They also introduced the question of the situation in the sector to the Council on Security.

Within the Ministry of Finance of Russia, which we asked to comment on the situation, the opinions were divided. Thus, the chief of the section on financing metallurgy of the Minfin [Ministry of Finance] Department of Industry, Raisa Varfolomeyeva, shares the concern of the exporter plants, and believes that they cannot emerge from the crisis without state support.

On the other hand, the deputy chief of the Minfin Department of Macroeconomic Policy, Aleksandr Polonskiy, is convinced that "the currency corridor," on the contrary, has helped metallurgists, since, he says, in reality it holds back the dollar from a much faster decline than if the exchange rate of the American currency were not limited by anything under the existing conditions of excess supply over demand. Polonskiy believes that the customs benefits provided to metallurgists constitute sufficient aid on the part of the state, and believes that now they themselves must seek internal reserves for reducing the production cost of their product.

Commenting on the problem of internal reserves, Deputy Chairman of the Committee on Metallurgy Leonid Shevelev confirmed that the cost of production today in Russia is indeed unjustifiably high due to outdated technologies. And, for example, the transition from pouring into ingot molds to continuous casting, and from open-hearth furnaces to converters would make it possible not only to reduce expenditures by 20-30 percent, but also to significantly improve the ecological situation at the metallurgical complexes. However, technical retooling on such a scale would require capital investments on the order of $10 billion. Thanks to the comparatively high profitability of export,

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up until recent times metallurgists have been able to perform renovation of production quite actively. However, the changed situation on the country's currency market has deprived them even of this possibility.

***Russian Offshore Business Growing**

954E1485A Moscow FINANSOVYYE IZVESTIYA in Russian 21 Sep 95 p 4

[Article by Mikhail Khaldin, professor, doctor of economic sciences, author of book "World Experience of Offshore Business" (Moscow, "Mezhdunarodnyye otnosheniya" ["International Relations"] Publishing House, 1995): "Russia Not Utilizing Capacities of World Offshore Business"]

[FBIS Translated Text] Present-day Russia, with its transparent borders, its weak customs, currency, banking and tax control, and its devalued ruble, has become an exceptional comfort zone for activity of foreign offshore companies. The ever-passive role of Russia in world offshore business is proving to be a detriment to it in terms of tax and currency revenues, and is resulting in the increased flight of Russian capital abroad. As we know, most of the developed and developing countries, by means of their administrative, currency, customs and banking control, strive to safeguard their markets against excessive revelry of foreign offshore companies. Yet at the same time, many of them are not averse to reaping their benefits from participation in world offshore business.

Active participation of any country in offshore operations presupposes the establishment of international offshore financial centers under its jurisdiction, the creation of a paid network of offshore companies abroad by its residents, and even better—the combined application of its own offshore centers and the network of offshore companies abroad in the interests of the national foreign economic complex. Russia is taking only the first timid steps in this direction.

The establishment and registration of Russian offshore companies abroad began back in the 80's, and in the 90's this incorporational activity in Russia took on the character of a boom. According to the estimates of foreign experts, in recent years Russia has held a firm lead in the number of offshore companies registered abroad. According to the most conservative estimates, for the present day there are no less than 60,000 Russian offshore companies registered outside the limits of our country. The favorite jurisdictions of registration among Russian founders are considered to be the Isle of Man (Great Britain), Jordan, the American states of Delaware and Wyoming, Switzerland, Lichtenstein, Hong Kong, Cypress and the Caribbean countries.

For various motives and reasons, today there are somewhere on the order of $300 billion U.S. in Russian "flight" capital outside the boundaries of Russia. For the present time it has not been put to use and is unemployed, and its holders are already exhibiting growing concern in connection with its "unemployment" abroad. Taking capital out of circulation entails major losses for its owners, especially under conditions of the start of monetary (post-voucher) privatization. The expansion of the network of Russian offshore companies abroad is one of the forms of including inactive Russian capital in world circulation. For Russia it is important that it be included also in the intra-Russian investment process.

Much in this respect depends on the initiatives of the legislative and executive branches of Russia. At the Russian Olympus, there is still a prevailing mistrust of movement of capital between Russia and the rest of the world, as well as of its active participation in world offshore business. Like the former Supreme Soviet, the current State Duma has not found the time to develop and adopt a law on export of capital and a law on free economic zones. Yet it is specifically these laws which could bring the activity of Russian offshore companies into the legal and rational channel of "white" business—profitable and law-abiding enterprise in the interests of the country.

On the other hand, numerous local initiatives regarding the expediency of expanding offshore centers on the territory of the country, to put it mildly, do not receive the firm support of the federal authorities. The Kalmyk and Ingush variants of the semi-offshore regimen, due to inconsistency and various miscalculations, have not yielded the anticipated effect, and once again "it turns out, as it always does." At the same time, the development of international offshore financial centers is considered to be a low-expenditure business, capable in a short time of attracting new foreign capital investments, expanding the tax base, increasing tax and currency income, increasing employment and strengthening business relations with the outside world.

Sooner or later, the Russian authorities will have to establish constructive interaction with the offshore companies as well as with their parent companies at home and abroad in the interests of developing foreign economic relations and establishing a balanced movement of capital between Russia and the rest of the world. Whether we want this or not, offshore operations have already long ago become a mass phenomenon in our country's foreign economic activity, and to ignore this circumstance is harmful and unprofitable.

The specific example of Russian offshore companies underscores the archaic nature of government policy in the

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sphere of movement of capital, the result of which has been the mass flight of capital abroad. In our opinion, the development and introduction of specific regulation of the movement of capital which meet the most current demands of world foreign economic practice, coupled with the creation of several international offshore financial centers on the territory of Russia, would be capable of providing significant benefit for the Russian economy.

***Government To Create Federal Energy Commission**

954E1415A Moscow DELOVOY MIR in Russian 12 Sep 95 p 4

[Article by Nadezhda Myakinnik, observer of DELOVOY MIR: "The Last Redivision?"]

[FBIS Translated Text] According to a fact, which found some reflection in the press, the government is preparing a decision on the establishment of a Federal Energy Commission (FEK).

Democrats of the first wave would describe the powers, which the FEK intends to assume, as total control and undivided rule in sectors bringing the most currency. In fact, officials will be responsible for the regulation of the transportation of oil, oil products, and gas and of control over joint-stock companies, including over their investment policy. However, what is especially topical, this commission will determine the procedure for access to main fuel pipelines. Naturally, it will begin to examine all the disputes and disagreements among exporters.

What should the attitude toward imminent changes be?

We will refer to the cautious, but highly skeptical, opinion of the new initiatives by Minister of Fuel and Energy Yuriy Shafranik. He said that they did not take into account the specific nature of the fuel and energy complex and the characteristics of its production.

The Ministry of Economics adheres to another opinion, on the basis of which, possibly, the federal commission will be formed. Referring to the fact that the FEK is being established not on an empty place (in the last two years an interdepartmental commission, which included representatives of all sectors, has operated successfully in the field of electric power engineering both in the center and in regions), the ministry thinks that it is time to lend a legal status to the federal commission. This should be so, if the letter of the law on natural monopolies and Western experience is followed. From these positions FEK functions should also be viewed differently. For example, when clear rules of interaction between the consumer and the producer of energy carriers are established, the principles of formation of the price policy are worked out, and even the rate "ceiling" is introduced, discrepancies in payments will also disappear. For now, however, the situation on the energy market is uncontrollable. For example, recently gas industry workers have raised the prices of their products and consumer enterprises are already on the verge of ruin. It is inconceivable, but the debt of power industry workers exceeds 25 trillion rubles. Again, they also owe not much less.

As was stated, proceeding from the specific tasks of the FEK, much significance is attached to its personnel structure. Along with economists, it will also include specialists of the fuel and energy complex. It has been estimated that, optimally, 200 people should work on the staff. However, if the commission is formed on the basis of the Ministry of Economics, one-half of this will also be sufficient. As can be seen, it has been carefully verified that this base covers the need for all necessary specialists. Well, what of that? Now is the time to count and in this respect the Ministry of Economics has priority over the Ministry of Fuel and Energy.

It goes without saying that with such a turn there will no longer be any necessity for old or for just established commissions in the energy sphere. The Ministry of Economics did not begin to comment on whether a significant front of work will remain for the Ministry of Fuel and Energy. The probability of a negative answer is great.

In any case another danger also exists. Right now it is implied that the Federal Energy Commission will grow—it is being established during a notorious transitional period. Moreover, after the activity taken away from the Ministry of Fuel and Energy, which coordinates the activity of nine sectors that several years ago had their own ministries, there is more than enough room to operate.

Only it seems to us, simple philistines, that after all the present transformations our offspring will have nothing to redivide.

***Conflict Between Power Companies, Energy Prices Formation**

954E1431A Moscow SEGODNYA in Russian 9 Sep 95 p 2

[Article by Aleksandr Bekker: "The Energy of a Long Drawn-Out Conflict"]

[FBIS Translated Text] On Tuesday, Oleg Soskovets was fitted for the role of peacemaker. Not in Chechnya, where he was sent to re-establish the republic's economy, but in Irkutsk, where the confrontation of the

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local administration and the Irkutskenergo AO, speaking in concert, with the RAO YeES Rossiya has been going on for three years. In Eastern Siberia the first vice premier conducted a conciliation commission to settle, in a period of two weeks, perhaps the most long drawn-out of Russian reforms.

In November 1992, President Yeltsin issued Edict No. 1334 on the procedure for privatization in electrical power engineering. According to the edict, all the system-forming GES's, to put it more simply, the key to the country's unified power system of hydroelectric power stations, were to transfer, when the joint-stock company was being formed, a block of 51 percent of the shares to the federal organization RAO YeES Rossiya. The Bratsk, Ust-Ilim, and Irkutsk GES's were not excluded. The oblast leaders, however, clearly realizing that since they had lost control over the cascade GES at Angara, they could not have any influence on the prices for electric power, did not submit to Moscow. Irkutsk citizens, in conjunction with the Krasnoyarsk authorities, appealed Boris Yeltsin's edict, first in the Supreme Court and then in the Constitutional Court. The edict, in their opinion, encroached on the region's right to be in charge of its natural resources. In turn the Ministry of Fuel and Energy and Goskomimushchestvo, poorly prepared at that time, were on the same side of the barricade in this matter: Yuriy Shafranik, minister, and Petr Mostovoy, deputy chairman of the GKI [State Property Committee], defended the position of preserving a unified power area for the country and centralized management of it.

The court examination in the spring of 1993 occurred at one of the peaks of the confrontation between the president and the government and the Supreme Soviet. The Constitutional Court, at that time headed by Valeriy Zorkin, in the conviction of the federal departments, was obviously politicized, and therefore, playing on the general weakening of Boris Yeltsin, decided in favor of the Siberians: The GES's at Yenisey and Angara were privatized as part of the Krasnoyarskenergo and Irkutskenergo AO.

Since then, the conflict between the RAO YeES Rossiya and the administrations and power engineering workers of Irkutsk Oblast has been blowing hot and cold. In January of this year it spilled over into an international scandal. Irkutskenergo concluded an agreement on supply of electric power to Mongolia. RAO YeES Rossiya, however, "cut down" the transaction, having proved, in the Higher Court of Arbitration, that the Siberians had no right to drive power along networks that belong to federal agencies.

In Irkutsk today the RAO management has again proven to Mr. Soskovets that the transfer of the controlling block of the Bratsk, Ust-Ilim, and Irkutsk GES's to YeES Rossiya will make it possible for these stations to go on to the wholesale electric power market, having thus leveled out the 10- to 20-fold spread, exasperating to the consumers, in the rates for it, for example, in Irkutsk and the Maritime area. The Siberians, however, convinced the first vice premier that the electric power stations within their jurisdiction, capable of generating 54 billion kwh a year, could supply the oblasts that were critically short with 8 billion kwh, without guardianship from above.

This long drawn-out conflict, it appears, is drawing energy from the strategical error of the reforms—the fact that the prices for heat and electric power were not liberalized on 2 January 1992, along with the other prices for energy carriers. Essentially, that is why there is now a struggle for control over the cheap electric power of the East Siberian GES. For the Irkutsk administration it is a price oasis—it is the best way of supporting local industry and agriculture. Strictly speaking, in this lies the solution, impressive to Mr. Soskovets, of a 7-10 percent increase in industrial production in the oblast, and, as a member of the government said, in order "to try to use this as a model in other regions of Russia," the government will obviously have to think primarily about organizing a Yenisey and Angara in "other regions." Much closer to earth in this sense is the RAO YeES Rossiya, which will most likely stand to the end for the idea of the "anschluss" of the Siberian GES, since without it, it will hardly be possible to smooth out the gap in prices for electric power in different regions.

It is obvious that the economic interests of the contending parties are so diametrically opposed that no conciliation commission will bring them together, not in two weeks—not in a year. Meanwhile, the conflict, economic in nature, is being burdened with complicated interpersonal relationships. Boris Yeltsin suffered a fiasco a couple of years ago in attempting to dismiss Yuriy Nozhikov, head of the Irkutsk administration, from his position. The memorable incident gives the local authorities confidence, and they will not even agree to Moscow's compromise proposal: Leave the GES in Angara as part of Irkutskenergo, but let the prices for electric power in this case be established by the Federal Energy Commission, headed by Mr. Chubays. Another aspect of the personal game of Patience: Mr. Soskovets, repeatedly exasperated by the rate policy of the RAO, has already posed the question of retiring its chairman, Professor Boris Dyakov. At the same time, at least by virtue of his affiliation to the federal authorities, the first

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vice premier cannot help but be in sympathy with the RAO YeES Rossiya approach. The coming elections, however, at which Mr. Chernomyrdin's Russia Is Our Home will have to cut across the periphery of the loved one, will put a limit on the solidarity.

In a word, this knot of problems, which is hard to undo, has dragged on, and cannot be cut apart. That is why the, at first glance, strictly sectoral confrontation has roused Mr. Soskovets to associate it with the Caucasus: If the resolution of the conflict drags on, he noted in Irkutsk, there may be a "second Chechnya, only not on the political but on the economic level."

***Yukos Oil Company Ready for Branch Structural Reorganization**

954E1437A Moscow SEGODNYA in Russian 14 Sep 95 p 4

[Article by Anastasiya Naryshkina and Olga Romanova: "YUKOS Will Issue Convertible Bonds Right After LUKoil: Branch Structural Reorganization Did Not Influence the Company's Plans"]

[FBIS Translated Text] The inclusion of nine enterprises in the structure of the YUKOS oil company on the basis of Government of Russia Decree No. 864 of 1 September will make it possible for this company to hold second place (after the LUKoil Company) among the Russian "oil kings" and to provide 12 percent of the total volume of oil produced in Russia. As noted yesterday at a news conference by Sergey Generalov, vice president of YUKOS, "no abrupt changes occurred after 1 September, inasmuch as we had worked with these enterprises before." In any case, YUKOS' plans to the year 2000—which are still being worked on—were being prepared taking the "newcomers" into account.

It is assumed that their participation (and also the development of new deposits, including the Priobskiy deposit) will make it possible to increase production appreciably: While they produced 28 million tonnes of oil in 1994, it is proposed that they acquire 34 million tonnes of oil in 1995. Sergey Muravlenko, president of the company, believes that 40 million tonnes in the future is quite realistic. Oil exports amounted to 3.672 million tonnes in 1994, 6 million tonnes are expected in 1995, and 8 million tonnes in 1996 (true, these plans could be hindered by a limitation that allows producers to export no more than 30 percent of what is extracted). Accordingly, the export of oil products looks like this: 1.878 million tonnes in 1994 and 3.5 million tonnes in 1995.

Besides expanding membership, one other innovation is expected. In the near future the structure of the administration of the Yuganskneftegaz association that is part of the YUKOS system will be changed. The new scheme has already been worked on for four months, and on 23 September pertinent proposals will be discussed at a board meeting of the directors of Yuganskneftegaz. In the event the board of directors make a decision, on the 29th the YUKOS board of directors will either approve or disapprove it.

[begin boxed item] Up to the present the members of the YUKOS structure were: the Yuganskneftegaz oil-producing association, the Novokuybyshevskiy NPZ [oil refinery], Kuybyshevnefteorgsintez (which includes the Kuybyshevskiy and Syzranskiy NPZ, and also the Samarneftekhimimproyekt), and enterprises for the sale of petroleum products in eight oblasts of Central Russia. By the 1 September government decree they will be joined by: the oil-producing Samarneftegaz association, the Khantymansiyskneftegazprodukt, Belgorodnefteprodukt, and Nefteyuganskneftegazprodukt sales enterprises, the Samarnefteproduktavtomatika, Voronezhnefteproduktavtomatika, and Samarneftekhimavtomatika scientific organizations, the Srednevolzhskiy NII [scientific research institute] for Oil Refining, and the Nefteyugansk specialized erection and repair administration.

In 1990 the Samarneftegaz AO [joint-stock company] produced 15.1 million tonnes of oil, in 1994—8.6 million, and in 1995 it intends to produce 8.7 million tonnes of oil. The reserves of the AO being worked on amount to 290 million tonnes, and 112 deposits are being developed (the rate of water encroachment of a big part of these is 83-85 percent). [end boxed item]

"In the next two weeks the GKI [State Property Committee] is supposed to issue clarifications on details of the issuance of convertible bonds for part of the block of stocks allotted to state ownership," Sergey Generalov, YUKOS vice president, noted in the course of yesterday's meeting with journalists. "It is obvious that otherwise auctions, competitions, and sales of part of the state block of stocks will not be held this year. When we coordinate everything, the decision will appear in the form of a government document."

Details of the issuance of convertible bonds of the YUKOS Company are not clear at present; however, Mr. Generalov let it be understood that it is a question of a three-year loan. It is implied that the real sale of the pledged block (the volume of which is precisely one of the basic questions of the agreement with the GKI) will begin no sooner than three years.

It is intended to assign the resources acquired from the sale of the bond loan to a "complex of measures coordinated with the investors aimed at raising the value of the stock and increasing the capitalization of the

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company." Nevertheless, it is clear that the strategic investor will be able realistically to receive a large block of YUKOS stock only in three years. The complex of measures directed at increasing the value of YUKOS stock (which in practice will not be present on the secondary market, so it is difficult to talk about their quotation level) has already started, and includes an independent expert analysis of reserves, a full financial audit of the company and its subsidiary enterprises, and the centralization of all commodity and financial flows.

It is entirely possible that the GKI, which has a 45-percent block of YUKOS stock at its disposal, will not be against the implementation of the project to issue derivative securities—after YUKOS goes through the "complex of measures," it will be possible in real earnest to approach the question concerning the issuance of the cherished derivative instruments—ADR or (and) GDR, and others that provide an outlet to international stock markets.

The YUKOS Company intends to proceed to exchange the stocks of its subsidiaries for stock of the company at the beginning of 1996. "The exchange will be conducted voluntarily during all of 1996," emphasized Mr. Generalov. This question is also being coordinated at the present time with the GKI, the Antimonopoly Committee, and the Ministry of Fuel and Energy. When a decision is reached, a new meeting of stockholders will be held. The leadership of YUKOS insists on the voluntary principle, but if the obstinate nature of the subsidiary companies is taken into account, especially that of Yuganskneftegaz, the exchange will not occur easily (the closed tender conducted by YUKOS-invest at the end of September for a preliminary determination of the value of the stocks of the company did not bring about results).

Moreover, about 51 percent of the Yuganskneftegaz voting stock belongs to the YUKOS Company (38 percent of the total amount and 75 percent of the voting stock). To reach a decision on the conversion at the Yuganskneftegaz stockholders' meeting it will be necessary to collect no less than 75 percent of the votes.

The leaders of the YUKOS Company have no information on the progress and results of the closed auction which was organized by Arman East Europe, during which it was proposed to sell 935,000 shares of stock of the company (i.e., about 2 percent of authorized capital). The starting price of the auction was given as $6 for a Yuganskneftegaz share of stock, given a market value of about $12. Arman East Europe categorically refuses to make any comment; however, according to unofficial information, the cutoff price at the auction was about $11.45 per share.

***Oil Companies Dissatisfied With Government Restructuring Decrees**

954E1430A Moscow SEGODNYA in Russian 9 Sep p 3

[ANI report: "The Government Has Brought an Imbalance into the Organizational Structure of the Oil Sector: The 'Oil Generals' Regard This as the Real Political State of Affairs"]

[FBIS Translated Text] The Russian Government, after long vacillation, has released a package of decrees which conclusively determine the structure of the oil companies that earlier obtained the status of the basic speculators on the Russian oil export market. The largest companies—LUKoil and YUKOS—have attached to themselves a number of sizable oil-extracting structures. In this way, LUKoil, the giant of the Russian oil industry, obtained the controlling block of four new oil-extracting enterprises—Permneft, Nizhnevolzhskneft, Kaliningradmorneftegaz, and Astrakhanneft, the total yearly extraction volume of which exceeds 11.4 million tonnes of oil. According to LUKoil data, the result of this merging is that its total oil extraction will rise by 29 percent and substantially exceed the landmark of 800,000 barrels a day, or over 53 million tonnes a year. The proven oil reserves of the company, which will reach 14.6 billion barrels, will increase by approximately the same amount (31 percent).

The YUKOS Company has taken into its structure the Samaraneftegaz Oil-Extracting Association, which extracted 8.7 million tonnes of oil in 1994, as well as a number of enterprises providing oil-products and planning institutes. The only oil-extracting structure of YUKOS—the Yuganskneftegaz AO—extracted 28.5 million tonnes of oil last year. The oil-extracting potential rose by 30 percent and may be up to 550,000 barrels a day (35 million tonnes a year) in 1995. According to the data of YUKOS representatives, the company's reserves, confirmed by an international audit, which constitute 11.6 billion tonnes (69.6 billion barrels), will increase by 0.8 billion tonnes (4.8 billion barrels) with the entry of Samaraneftegaz.

Both companies claim that the increase in oil reserves and extraction, stemming from the establishment of control over the new enterprises, make it possible to predict an increase in the market value of each AO and to raise the share quotations and income of the shareholders. According to the estimates of LUKoil experts, the real assets coming to each shareholder will increase by an average of 30 percent as a result of the merger.

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The Sidanko, Slavneft, ONAKO, Sibur, Vostochnaya Oil Company, and NORSI companies have also definitively determined their structure. For example, the Russian-Belarusian oil company Slavneft obtained a controlling block of two oil refineries in Yaroslavl, which makes it possible for it to refine up to 10 million tonnes of oil a year. Also included in this company are the Mozyrskiy NPZ, also on Belarusian territory, and the Megionneftegaz Oil-Extracting Company (Khanty-Mansiyskiy District, Western Siberia). Slavneft's extracting potential is estimated at 13 million tonnes of oil a year (213,000 barrels a day).

The Sidanko Company, which possesses the greatest "zone of responsibility" for providing the oil products of the vast territory of Siberia and the Far East, has unexpectedly turned out to be one of the outsiders of the oil market. Having obtained the controlling block of shares of the average-capacity extracting enterprise Saratovneftegaz (extraction volume in 1994 was 1.2 million tonnes, that is, about 20,000 barrels a day) and the Khabarovsk NPZ, Sidanko lost the possibility of aspiring to the most promising oil-extracting association in Russia, Purneftegaz (Yamalo-Nenetskiy Okrug, Western Siberia) and the Sakhalinmorneftegaz Association, connected with the international Sakhalin 1-4 shelf projects. As the management representative of Sidanko stated, the loss of Purneftegaz "may possibly make the company buy oil from other enterprises," since its program of providing the regions of Russia with oil products finds itself threatened. Purneftegaz, which extracted about 8.4 million tonnes (50.4 million barrels) of oil, may go off to Rosneft or to the newly created Siberian Oil Company.

The most tragic fate is that of the former state company, Rosneft, which should have been turned into a joint-stock company of the same name. A few days before the signing of the package of government decrees on the structure of oil companies, which should have included the document on the structure of Rosneft, an edict, signed by Boris Yeltsin, was issued on the formation of the Siberian Oil Company (Sibneft), formed from two enterprises—the Noyabrskneftegaz Association and the Omsknefteorgsintez AO (Omsk Refinery), which should have become the nucleus of Rosneft.

According to the confidential data of the higher management of the major Russian oil companies, the formation of Sibneft was to help Boris Yeltsin's people to form "an independent source of financing the pre-election campaign of the summer of 1996." The accelerated creation of Sibneft, the charter documents of which are expected to be accepted after 15 September, may lead to a substantial imbalance in the oil sector. Well-informed representatives of the RF Ministry of Fuel and Energy reported this, in particular. Rosneft, which lost, with the departure of Noyabrskneftegaz and the Omsk NPZ, up to half of its potential for extracting and refining oil, will be forced to purchase 10-15 million tonnes of oil a year to ensure supplies for export and to the regions of Russia.

Today its enterprises, including Purneftegaz and Sakhalinmorneftegaz, to which Sidanko formerly aspired, are extracting no more than 15 million tonnes of oil a year (240,000 barrels a day). Rosneft was formerly considered a "headache" for the Russian "oil generals," because a presidential edict granted it the exclusive right to sell the state's share from oil extraction for the projects of dividing up the products at Russian deposits. Now, however, the total destruction of Rosneft is obviously beginning to worry them, since new structures are appearing in the arena, establishing their own rules of the game and destabilizing the situation achieved.

The process of reforming the Russian oil producers has not yet touched the Russian pipeline monopolists—the Transneft and Transnefteprodukt joint-stock companies. The decision on the structure of these companies is expected next week. As we have learned, the changes in them will affect the amount of charter capital, which will be increased through the 100-percent entry into Transneft of each of its 49 daughter enterprises. It is assumed that 75 percent of the Transneft shares will remain under federal ownership, and up to 25 percent will be handed to the ranks of the privileged and distributed among the enterprise workers.

*Nonpayments Problems in Oil, Gas Complex

954E1491A Moscow ROSSIYSKIYE VESTI in Russian 23 Sep 95 p 5

[Article by Aleksandr Romanikhin, "Soyuzneftemash" director: "What Is Deeper—Oil Wells or Debt Holes?"]

[FBIS Translated Text] The problem of nonpayments, one of the most serious problems in the Russian economy, becomes more acute each time the government tries to reduce the level of inflation by tightening finance-credit policy. Efforts to limit the solvency of market subjects often lead to a situation whereby, with growth of prices, there is an absence of equivalent payment means.

The amounts of nonpayments are especially great in the oil and gas complex. As a result, practically all Russian enterprises manufacturing products for the oil and gas producers are experiencing very hard times. While in 1991-1993 the re-orientation toward production of equipment for the oil and gas complex led to improvement of the financial situation of the machine building

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plants, today, due to the absence of financial resources in the accounts of the enterprises of the oil and gas complex, a clear crisis of sale has become evident.

Uralmash and the Volgograd Drilling Equipment Plant have reduced their production of drilling rigs to one-third of its previous volume. All of the drill bit plants of Russia, the Ishimbayskiy Machine Building Plant and many other enterprises of the subsector find themselves in a critical position. Within the scope of the conversion program, and at the cost of considerable expenditures for re-profiling production, the plants of the VPK [military-industrial complex] have developed high quality oil and gas equipment. At the present time, due to a lack of funds on the part of the contractors, these products remain without demand.

Under such conditions, mutual accounting takes on especially current importance. This is a purely Russian scheme under which the economic mechanism functions under conditions of general nonpayments.

The primary creditors of the oil and gas machine building plants are the enterprises in metallurgy and power generation, as well as the railroads. In turn, the RAO [Russian joint-stock company] "EES of Russia" owes huge sums to "Gazprom." The metallurgists have debts to the RAO "EES of Russia" and also indirectly own "Gazprom." Despite the presence of huge (in the trillions) debts, it is not easy to implement mutual accounting.

The financial resources for performing accounting with "Gazprom" are clearly absent. Therefore, it is difficult for the commercial structures to conclude deals. The only possible method of paying for the services of the middleman is to concede part of the equipment received from him for unrestricted sale on the market.

Only the Gazprom structures which have close relations with the associations and are capable of alleviating difficulties along the entire chain of operations can regularly conduct such deals. One such organization is the "Rossiyskiy gaz" ["Russian Gas"] exchange, created by the RAO "Gazprom." Such deals are also organized by the "Rus-Gaz" trade house, which represents the interests of a number of gas drilling associations in Moscow. Considerable benefits from "Gazprom" in implementing mutual accounting were received also by its centralized supply structure—the PKP "Gazkomplektimpeks." "Gazprom" recommended to all the gas drilling associations that they perform accounting through the above mentioned firm. However, due to excessive bureaucratization of the latter and the lack of flexibility, the PKP "Gazkomplektimpleks" is ever more often bypassed by more mobile structures.

The machine builders have a different way of settling accounts with the oilmen. The primary debtors of the oil drilling associations are the oil processing plants. The debts of the NPZ [oil processing plants] comprise around 90 percent of the total debts of the associations. Therefore, oilmen offer petroleum products in exchange for deliveries of oil equipment. However, the NPZs are not very inclined toward giving away products in payment for debts, because the representatives of the oil drilling associations encounter difficulties in shipment of the petroleum products and in coordination of the wholesale prices.

In general, a paradoxical situation has arisen. The oilmen, having pumped the oil to the NPZs at the start of 1994, are receiving payment of the debt in petroleum products, with huge problems in terms of 1995 prices. An analogous situation has arisen for the enterprises of RAO "EES of Russia" with consumers of electrical power. The only way out is reciprocal increase in wholesale prices on oil drilling equipment by the manufacturing plant or commercial structure performing such an operation. This makes it possible to sell the petroleum products at market prices. Such a scheme entails real rubles, and therefore all the services of material-technical supply of the oil drilling association are surrounded by numerous traders in petroleum products. The most liquid commodity, crude oil, is given away much more rarely by the associations in exchange for deliveries of oil drilling equipment. The barter volumes of oil here, as a rule, do not exceed 5,000-10,000 tonnes. Such small volumes are rather difficult to sell.

Despite the multitude of problems, there are structures which are successfully implementing mutual accounting with the oilmen for equipment—the "Naftasib," "Yukos-Servis," "Interneft" firms, and a number of others.

Oil and gas machine building has been dispersed throughout various departments. There are many plants, and there is practically no interaction between them. To organize accounting with each enterprise separately is difficult due to the small financial volumes. The departmental and territorial dispersion of the plants aggravates the situation. Therefore, a structure is needed which would be capable of representing the interests of a significant group of enterprises before the oil and gas complex, as is the case in other sectors. A sectorial association of producers of oil and gas equipment is needed to protect the interests of the manufacturing plants within the complement of the system of Mintopenergo [Ministry of Fuel and Energy], Goskomoboronprom [State Committee on the Defense Industry] and Roskommash [Russian Committee on Machine Building].

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Therefore, in our opinion, it would be expedient to accelerate the process of creating financial-industrial groups which would unite the plants manufacturing oil and gas equipment. It is also necessary to actively involve the finance companies and consulting structures in developing new approaches to formulating the stable and solvent sale of oil and gas equipment under market conditions.

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National Affairs

*Socialist Faction Faults Kuchma on Economy

954F3482A Kiev GOLOS UKRAINY in Russian 13 Sep 95 p 7

[Article by Ivan Chizh, head of the Socialist faction: "Declaration of the Socialist Faction of the Supreme Soviet of Ukraine"]

[FBIS Translated Text] On 5 September 1995, the fourth session of the Supreme Soviet of Ukraine began work. In number of issues raised for review, but chiefly in terms of their weight and importance, this session will take a special place in the lawmaking process. It will take it on the condition that the deputy factions and groups, the Supreme Soviet commissions, and the entire contingent of chosen representatives of the people work constructively, purposefully, and hard.

Among the most important issues which will require thorough development and urgent consideration are the set of economic issues, the problems of reforming the legal system, creation of rules for maximum assistance to domestic producers of goods, and eliminating conditions for illegal enrichment by dealers in the shadow economy.

The set of social issues will demand decisive and construction action by legislators: just, adequate pension legislation appropriate to the labor contribution and commensurate with the real cost of living, a system of additional payments and subsidies as a real mechanism to withstand price gangsterism and not a fig leaf to cover the pseudo-reformers' robbing field, grants and compensation for the disabled, orphans, and large families, support of young people, in particular students, the intelligentsia, women, and veterans of war and labor.

The supreme legislative and representative body, formed by all the people of deputies who must endure the storm of indignation from their voters because of the beggarly, steadily worsening existence of most of the people—this body cannot be deaf to the voice of the people. Although adoption of the unlawful Constitutional Agreement gave unlimited and in reality uncontrolled power to the president and the vast army of government servants and excluded the Supreme Soviet from the actual process and from influencing the actions of the executive branch, still we cannot be passive when it involves a further snowballing decrease in production, disastrous decline in the standard of living of the overwhelming majority of the people, uncontrolled growth in prices, and an orgy of speculation, bribery, and theft.

The intentions of the Supreme Soviet to work productively can be nullified if the indistinctness, lack of system, and elementary lack of professionalism in the actions of executive structures continue. After all, while announcing the need for accelerated formulation of the set of economic laws, for example, the Cabinet of Ministers still has not submitted more than half of the planned draft laws (315 are planned, and 162 are missing). Among them there still is no program of government activities and the Supreme Soviet has not received the draft laws "On Financial Clean-Up of Enterprises," "On Leasing Land," "On the Creation of Special (Free) Economic Zones," "On State-Owned Enterprises," "On Management of the State Sector of the Economy," "On Reprivatization (Nationalization)," "On Prices and Price Formation in the Agroindustrial Complex," "On the State Foreign Debt of Ukraine," and many other extremely important legislative acts.

It should be recalled that according to existing legislation and in conformity with the budget resolution submitted by the Supreme Soviet of Ukraine, by the middle of this month the president should already submit the draft State Budget for 1996 for ratification by parliament. This time has already passed. Our faction has more than once stated its position regarding the budget that was formed and is now being formed exclusively to benefit the International Monetary Fund and is devastating for our economic and social sphere. This is also a result of the fact that the government party simply has not submitted a general design for tax policy to the Supreme Soviet.

Unfortunately, the elementary social rights of people continue to be flaunted. Taking advantage of the fact that at the present time the Supreme Soviet is deprived of its constitutionally established right to appoint the prime minister and seven ministers (the president does this alone), the government is blocking introduction of the main articles of the Ukrainian Law on Labor Payment into effect. Articles 9, 33, and 34 have been excluded, even though they are the very ones that determine the minimum wage payment and regulate questions of indexing and compensation for losses caused by untimely labor payment. The actual operation of the Ukrainian Law on the Poverty Line is also being blocked because the cost expression of the survival line was not established in conformity with normative consumption indicators. The government did not submit the General Design of Social Policy, and the draft laws "On Insuring Citizens against Unemployment" and "On Indexing Citizen Deposits (in Sberbank [Savings Bank] and Ukrgosstrakh [Ukrainian State Insurance] Institutions."

It is obviously to someone's advantage to artificially create gaps in lawmaking work and blame the Supreme Soviet for this. Wasn't it the absence of a Law on the System of Hard Currency Regulation, which the gov-

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ernment still has not submitted, that generated the hard currency boom which occurred recently, with its plainly criminal undertone? In a matter of 24 hours the exchange rate of the dollar went from 150,000 to 230,000-240,000 karbovanets. Meanwhile the National Bank pretends that nothing happened, although in Russia a similar situation led to the resignation of the chief banker and a number of ministers. At the same time, according to some estimates, the National Bank threw in as much as 400 million dollars to maintain the exchange rate of the karbovanets, buying up more than 60 trillion karbovanets. One must wonder whether this colossal amount of hard currency really was superfluous to the state and in whose deep pockets it ended up? That is the first point. The second point is: if the treasury received such a huge amount of money, bought for hard currency, then where is this money deposited? How is it working for the economy, for the state budget?

Unfortunately, in the uncontrolled situation that exists in the state it is not easy to find answers to these questions. The socialist faction of the Ukrainian Supreme Soviet demands that these antistate actions be investigated and the responsible parties at fault be brought to account. As well as those who fostered the artificial jump in prices for petroleum products and the latest leap in prices in the municipal sphere.

This is in a situation, incidentally, where entire regions are without electricity, when the hot water supply has been turned off in many cities, and when the question of closing down the educational process in the schools for the winter is being seriously considered in a number of oblasts and in the Crimea. Planting of crops is breaking down and there is a danger of significant crop losses next year.

It should be recalled that the Supreme Soviet expressed lack of confidence in the preceding government for similar anti-people actions. Unfortunately, the president appointed the same masters of failure to high ministerial positions, which apparently is supposed to signify that these leaders are taking Ukraine along the correct path.

The social and economic problems can only be resolved in close connection with solutions to the political problems. We must step up development of the Ukrainian Constitution, whose main provisions should be confirmed by an all-Ukraine referendum (which stops the action of the unlawful Constitutional Agreement) and adopt a new democratic election law which would offer an opportunity to form the full membership of the Supreme Soviet. The question of people's deputies who work in the structures of the executive branch should be decided.

Our faction has its own serious workups and proposals on all of these issues and its own vision of ways to overcome the crisis. We are ready for productive cooperation with all the forces in the Ukrainian parliament and with all branches of power, on the condition that this work is done in the legal field and is directed to the welfare of the people of Ukraine.

The Socialist deputies consider the following a foundation for overcoming the crisis.

1. The president of Ukraine should revoke the Constitutional Agreement and, aware that he is the guarantor of the Constitution now in effect, begin building a law-governed state, whose fundamental principle is the supremacy of the law.

2. In conformity with the Constitution of Ukraine:

—the Constitutional Court should be formed;

—the Supreme Soviet should ratify the candidacy of the prime minister and key officials in the government with discussion of their programs of action;
—the 1996 budget should be submitted for examination by the Supreme Soviet at the time envisioned by law, including a tax policy which would stimulate growth in domestic production and protect the interests of the majority of the population;
—the recommendations and credits of the International Monetary Fund should be rejected and instead the Supreme Soviet should adopt a program of economic reforms and management of the economy in the national interest.

On these principles the Socialists are ready for productive work in the Supreme Soviet and for construction cooperation with the president of Ukraine.

Formation of Parliament Majority Doubted

954F3514A Kiev KIYEVSKIYE VEDOMOSTI in Russian 15 Sep 95 p 3

[Article by S. Rakhmanin: "Parliamentary Equation: How To Find A Majority"]

[FBIS Translated Text] Opening the fourth session of the Ukrainian parliament speaker Aleksandr Moroz voiced the hope that it would mark a turning-point on the way toward a comprehensive approach to the legislative process. Analyzing internal and interfactional relations in the domestic legislative assembly, one thinks that this session must become a decisive one in regard to another issue as well (a sore and bothersome one)—the formation of a real majority.

Its absence for the legislators is at the same time a headache and somewhat of a joy. The former is be-

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cause the fate of any basic issue ends up hanging by a thread. Representatives of factions interested in the concrete results of voting are condemned to exhausting negotiations with potential supporters. The latter is because in case of failure it is always possible to conscientiously shift responsibility for undesirable political consequences on "the right majority" or "the left majority" since neither really exists.

Still among the legislative formations two at the very least have already "ripened" sufficiently to assume responsibility for the adoption of decisions—the faction of communists and the Reformy deputy group. But not just because of uniquely subjective factors (ambitions, degree of organization, existence of own agenda)—both have competitors. It is just that due to certain objective reasons neither a purely rightist nor a purely leftist majority can evolve in the Ukrainian parliament at the present time, but only ones that are right to center or left to center. The Sobolev and Symonenko teams, correspondingly, are suitable for the role of unifying factors.

Two factors should (logically) promote an acceleration in the process involved in the creation of the desired majority—planned speed-up in work on the constitution and the economic program of the government. In both cases the so-called "neutral" segment will have to define itself rigidly—the universal "yours or ours" principle may not apply to either. The proximity of elections and complexities within most of the groups and factions, causes a certain amount of hullabaloo in the process of "parliamentary courting."

The situation may develop in two directions. The first one: a left to center majority is created on the basis of the Communist Party of Ukraine faction. Communists, socialists, and leftist agrarians must attract to their side potential supporters from Nezalezhnykh, MDG, Yednosti, and with a certain distribution of forces, from Tsentr as well. The degree of organization and purposefulness of the communists are their strong and therefore attractive aspects. As before they continue enjoying strong although a weakening influence in eastern and central regions. Moreover it is possible to assume that at the local level they have no trouble finding a common language with regional leadership, two-thirds of which comes from the old nomenklatura, as well as with the heads of large enterprises, and, naturally, kolkhozes. We are not speaking of unconditional sponsorship. People, however, still engage in dialog and provide help for the leftists proceeding primarily from two principles—"for the sake of old friendship" and "just in case." These are all arguments in favor.

The arguments "against," however, also appear rather weighty. One of the reasons is unwillingness to spoil relations with the president. The leftists, quite frankly, are presently in opposition to the head of state, while "neutrals" have the instinct for self-preservation. MDG is torn between its attachment to the president and ideological kinship with the left, and therefore their representatives will have to do some hard thinking, just as members of Yedinosti who are guided by pragmatic reasoning on the regional level. A rapprochement between communists and the extreme right is practically inconceivable. On many issues they have similar voting results, but class hostility (no irony intended) is a sacred thing. In addition to that for both that would cause a full loss of face, and that means votes. Also, the extreme right (due to its small numbers) is not very influential in parliament.

There is another point which the communists and their companions-in-arms cannot fail to take into account in estimating the ways for expanding the sphere of their influence in parliament. We are speaking about a change in leadership. It would appear natural for the leftist bloc to be headed by a representative of the Communist Party. But Petr Symonenko is an insufficiently colorful nor a forceful enough figure for that. Serious complaints were heard against him at the last congress of the organization, and talk that the first secretary must be replaced still has an urgent ring. Aleksandr Moroz is a more earnest politician, but despite the fact that the leftists are protecting him like a banner he is subjected to criticism constantly and quite sharply. The optimal variant for the leftists would be an effective appearance at the helm of a picturesque leader who has never been tainted, which is highly unlikely.

The position of the leftists will be greatly enhanced if the prohibition against the Communist Party of Ukraine and Kommunist Party of the Soviet Union is somehow lifted. The issue here is not even one of property and funds of the party, as believed by some rightists—it would be a colossal political victory. After that happens many "neutrals" will gradually begin shifting to the left.

How will the leftists behave if they achieve a true majority? They will denounce the Constitutional Agreement and regain full control over the government, and take the course toward a parliamentary republic, while striving to eliminate the institution of the presidency. Judging by everything in such a case Ukraine will be presented with a constitutional crisis.

What are the chances of the right to centrists headed by Reformy acquiring the majority? They are just as problematic. Let us say Reformy votes in an identical way with the Rukh faction, an undoubtedly powerful force

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and a rather well organized one. But it will be difficult for them to coordinate a strategy of parliamentary activity. The Rukh leaders have the right to be curious as to why they should go "under Reformy" when they already have a large party and faction? Rukh would not refuse a dominant position.

Reformy has a lot of its own internal problems. That deputy group is not a faction and it does not have a strong backup in the form of a party. Preparation for the creation of a party organization is under way, but that is not something that can be accomplished quickly or easily. The question of financing is an acute issue. Attraction of private capital? Representative of the young Ukrainian entrepreneur group are a cautious lot and, so far, not very generous. There is also the criminal business. But an alliance of Reformy with it is practically precluded.

The democrats cannot get away from the problem of leadership. The abundance of personalities is unfortunately leading if not to a split, at least, to friction. It is sufficient to recall the "soft opposition" of Pynzenyk-Lapova. The delegation of leadership duties to noncontroversial Sobolev was suddenly a fine decision. The election of a leader of a future party will hardly be painless.

Activity aimed at the winning of votes is not yet noticeable. The idea of liberalism is undoubtedly attractive but at the given moment it is alien to a significant part of the population. Those who will potentially be voting for reformers are young people who are highly apolitical and so far nothing is really being done to win their hearts and minds.

Someone hastened to list a not-yet-created party, conceived by Sobolev and comrades as being among those that are propresident. In actual fact everything is not that simple. Reformy has done a lot for the adoption of the Constitutional Agreement, Reformy constantly hinted to the president about the need to be oriented toward a concrete political forces, Reformy had an entire package of proposals regarding government appointments. The Constitutional Agreement is in effect and the government has been formed. But the wishes of parliamentary democrats were not taken into account and relations between them and the head of state, it appears, did not draw even half a step closer while the planned corrections in the course engender certain apprehensions among the "reformers."

It is possible that the president will move first to meet half way. In that case it would be simpler for Reformy to unify a number of "doubting" deputy groups around itself and attempt to win over a majority.

The worst case scenario for the legislative body would be the rebalancing of forces as a result of which two deputy blocs would form each barely lacking a majority. If that happens the legislators will have a direct reason to think of the next election. A situation in which everything remains as it is also not the best solution—the Supreme Council will survive longer but hardly the entire term. Right now only the lazy are not speakinng out that stability and consistency are needed as never before in lawmaking at this point in history.

Economic Issues

*Consolidation of Banking System Urged

954F3481A Kiev KIYEVSKIYE VEDOMOSTI in Russian 13 Sep 95 p 6

[Article by Nikolay Zakrevskiy: "Merger, Breakup, Nationalization of Ukrainian Banks: One Step Forward or Two Steps Back?"]

[FBIS Translated Text] In banking circles people are seriously alarmed at the rumors heard lately of possible mergers of smaller banks with larger ones. There is no reason to doubt that the administrative whip of coercion can spur on this course of events. The presidential Edict on Measures To Straighten out the State's Relations with Joint-Stock Commercial Banks was a cold shower in the heat of July for the country's three largest banks—Prominvestbank [Industrial Investment Bank], Ukrsotsbank [Ukrainian Socialist Bank], and Ukraina Agroprombank [Ukrainian Agroindustrial Bank]. This edict took the form of concealed nationalization after which the state's share in the charter capital of the three banks should increase (after fulfillment of the edict) to 35 percent instead of 1 percent.

There were also persistent rumors about this at the time. Official confirmation of them was heard from Leonid Kuchma in Uzhgorod: "I am not raising the question of their nationalization at this time, although such a step is not precluded," the president warned. "We are raising the question of expanding the state's part in the capital structure of these banks."

So the current rumors are not without some foundation, if we consider also that the economic prerequisites for such a step exist. Some of the banks, primarily the small ones, are on the point of bankruptcy because of failure to repay credit. Behind that there is generally a trail of violations and abuses, and therefore it is entirely feasible to "bring them back to health" administratively.

In the chorus of rumors and discussion today about ways to reorganize the banking system the "alternative" opinion is increasingly expressed: the big banks, the

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former state banks, should be broken up, these people say. They have concentrated a large part of the capital in their own hands. Therefore they should be put in equal conditions of competitive struggle for clients. Because with us decisions are usually made first and then possible repercussions are analyzed, this is the time to raise the question: what path to deepening reforms in the banking system should be chosen—nationalization, merger of banks, or breaking them up?

Unfortunately, the first tilt in the direction of a state takeover of the three finance-credit institutions has already occurred. Let us consider that not even the president is rejecting nationalization, and therefore we ask ourselves: where will this lead? First, how proper are the state's claims?

They say that in adopting the decision the president was persuaded by the argument that the present-day banking giants built up their commercial fat at state expense, that is budget capital. In fact at the moment that Prominvestbank, Ukrsotsbank, and Ukraina Agroprombank were reorganized into joint-stock societies they transferred all accumulated capital to the state budget. That can be checked easily, and it could not have been otherwise. The banks leased their premises, furnishings, and equipment. For example, to form its charter capital Prominvestbank issued shares which were distributed among 200,000 physical persons and 500 legal persons that are not state-owned—at that time state enterprises did not have the right to be bank stockholders. What did the banks inherit? Fairly high professionalism among employees and the trust of former clients.

There is no need to talk about the benefits in using state lines of credit either; the difference between the cost of credit resources and the interest rate on them with subsidization, of the coal industry let us say, is no more than three percent annual interest. Bankers observe in passing that this is dozens of times less than the usual rate and pace of inflation. On the other hand the state got plenty of benefits from the commercial activity of the banks. The indebtedness of state enterprises on credits today runs into several tens of trillions, but instead of settling up with the banks and transferring leased quarters and material-technical facilities worth the amount of the debt, the edict prescribes that they be purchased. What about the debts? They are to be repaid from the dividends which from now on are due to the state. After all, it contributed material assets to the charter capital—those same quarters. There is the financial "restructuring," and the debts are gone, and the state becomes a charter member. This means it can influence the credit policy of the banks. More accurately, it can knock credits out of them.

Indeed, this political message underlies the presidential edict, but what kind of economic consequences will it have?

There is no need to hope that the present statization, and even less the possible nationalization, will help solve the problem of enterprise solvency and overcome the crisis of production. I inquired: the sum of the free capital in the correspondent accounts of the banking "triumvirate" is estimated at 15 trillion karbovanets. It is not hard to predict that without a security mechanism or guarantees of repayment this money will be swallowed up by the bankrupt enterprises in a matter of days. After all, the government now has, according to the estimates of financial experts, about 200 trillion karbovanets of indebtedness on loans received from the NBU [National Bank of Ukraine] and the commercial banks.

It is curious that the supporters of bank nationalization also serve it up as a rescue measure to clear up finances, referring to the experience of France or England, who went through similar processes of smothering private capital. Yes, it happened, the popular finance textbooks of foreign colleges and universities tell us, in France in 1946 and in England in 1929-1933. But there the partial nationalization of banks had the purpose of mobilizing the population's capital for the needs of the economy, and the state assumed the role of guarantor of the preservation of deposits, which were directed to economic development. In France, for example, the state paid 15 percent over the real value of every share of stock purchased during the nationalization of banks. Significant benefits were provided in England also. How can there be any talk of ability to buy the capital of the three largest banks, estimated to be approximately 50 trillion karbovanets, when the state is 200 trillion karbovanets in debt to the banking system as a whole? And on top of that pay for bank stock?

Let us consider that the situation in Ukraine is different too. In the first place, public trust in state banking institutions (at present there are only two in Ukraine, Sberbank [Savings Bank] and Eksimbank [Export-Import Bank]) has been devalued. The reason is the failure to compensate for deposits in Sberbank. Thus the population is hardly likely to willingly release its own money into state circulation. For comparison Sberbank, which has about 13,000 savings offices (against 2,000 in the remaining bank institutions) has attracted only 16.5 trillion karbovanets of citizens' money to its accounts at the present time. This is, incidentally, more than half of the deposits of the population which are saved in bank accounts. Meanwhile, financial experts believe that citizens are holding about 150 trillion karbovanets. The point is obviously not a lack of state commercialized banks, but rather the degree of trust in the current ones,

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the economic interest of the banks in attracting money from the population, and the existence of conditions for effective placement of credits.

There is, it is true, one proven way—forced nationalization, flaunting in the process a number of laws of independent Ukraine ("On the Economic Independence of the Ukrainian SSR," "On Economic Societies," "On Property," "On Entrepreneurship," and "On Banks and Banking Activity")—in which the state guarantees the protection and equality of all forms of property, but then thousands of stockholders, above all natural persons who have learned by bitter experience with keeping their money in Sberbank, will begin taking their money out of the state commercialized banks, and they will find themselves on the brink of bankruptcy.

We will not disregard the international aspect of bank nationalization either. The investment climate in Ukraine, as is well-known, is one of the least favorable. This is judging by the rate of Western financial assistance to our economy. After all, the foreign banks open lines of credit predominantly for non-state finance and credit institutions. Therefore, the growing appetite for "full and rapid" statization of Ukrainian banks will lead not only to a decline in Ukraine's reputation in the world financial establishment but also to losses of that much needed credit and investment aid.

The idea of breaking up the banks seems short-sighted. It is not hard to guess they would be from the number of those same former state banks. Only two Ukrainian banks are included in the 100 largest CIS banks, and not one of them is listed among the 500 largest in the world banking table of ranks. Concentration of banking capital is an indicator not only of a country's economic well-being but also a political and strategic military criterion. For comparison, Prominvestbank, the largest in Ukraine, has balance capital that is 1/300 of that of the German Drezdner [as published] Bank and 1/12 of the capital of Westdeutsche Landesbank.

Throughout the world the dominant trend is not breaking up banks but rather concentration of bank capital. In the first place, the financially powerful banks are more resistant to bankruptcy. In the second place, they are more able to finance large-scale national economic programs. In the third place, they have much greater capabilities for attracting hard currency credits from the banks of other countries.

So merger of banks—above all medium-sized ones and annexation of smaller banks to large ones—will enable the Ukrainian banking system to develop financial muscle. Surrender numbers to build strength. Napoleon, it is said, loved to say now and then: "If France had the banking muscle that England has, our army would be invincible!" The concentration of capital in foggy England 150 years ago was, of course, the greatest in the world.

The question, however, is by what rules should Ukrainian banks be consolidated? In any case, not by administrative rules delivered with the subjective sweep of a pen. This right must be given to the bankers themselves, with the rules of the game defined legislatively.

*Heat Cutoff Threatened for Nonpayment

954F3534A Simferopol KRYMSKIYE IZVESTIYA in Russian 21 Sep 95 p 2

[Interview with Valeriy Mikhaylovich Kuzin, general manager of the Crimean Heat and Communal Power Leasing Association, by KRYMSKIYE IZVESTIYA correspondent I. Gerasimenko: "If You Do Not Want To Sit in the Cold — You Better Pay Up"; date and place not given]

[FBIS Translated Text] **The Crimeans are anxiously awaiting the onset of the heating season. They had to endure quite a few problems last winter in unheated apartments, without gas and with a limited supply of electricity. Judging by everything, this year will be even more difficult, if fundamental measures are not undertaken by the governments of Crimea and Ukraine. The nonpayments crisis has paralyzed the power system and the gas- and oil-supplying complexes, on which the delivery of heat to our apartments and the proper functioning of enterprises of the industrial and social spheres depend directly.**

With what problems did the workers of the leasing association Krymteplokommunenergo [Crimean Heat and Communal Power], who are directly involved in supplying heat to residential houses and other facilities and in preparing the heating systems for the season, meet up? We turned to the association's general manager, V. Kuzin, with this and other questions.

"Our problems," said Valeriy Mikhaylovich, "are basically associated with the lack of the needed amount of funds for performing repair operations, for purchasing fuel oil for the boiler houses and for mutual settlements with subcontractors for gas, water, electricity and the like. After all, a normal supply of heat depends on three factors: the regular delivery of electricity (inasmuch as our equipment operates with its assistance) and the availability of water (for filling and feeding the heating systems) and fuel (both gas and fuel oil)."

"Ukraine's Minenergetiki [Ministry of Power Engineering] gave notice that the supplying of electricity would

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be limited to 10 hours per 24-hour day. But our boiler houses cannot function properly without it for even a minute. We can, of course, sharply limit the consumption of electricity, but, in this event, the heating system itself will simply be protected from freezing up, while it will be cold in apartments. We owe the power workers 120 billion karbovanetses."

"As for water and gas, the overall indebtedness to Krymvodokanal [Crimean water utility], Krymgaz [Crimean gas] and Chernomorneftegaz [Black Sea oil and gas] is equal to 905 billion karbovantses, which we are unable to pay off. We are constantly receiving threatening telegrams from subcontractors. In particular, the Simferopol TETs [Heat and Power Plant] has warned about a reduction in the supplying of hot water to the city's residents whom our association serves. In the event that the indebtedness is not paid off, the TETs workers are warning, the hot-water supply will be cut off completely."

"It must be mentioned that our boiler houses do not operate only on gas. Liquid fuel, i.e., fuel oil, is used in Simferopol to heat four hospitals and all the boiler houses in the eastern part of Crimea (Kerch, Feodosiya and adjacent settlements) and many boiler houses on the southern coast of Crimea operate on it. Our boiler houses' need for liquid fuel amounts to 150,000 metric tons per year. The reservoirs have been designed for reserves of 29,000 metric tons, while they currently contain, in fact, only 17,000 metric tons."

"There is only one reason we are unable to settle our debts and to purchase the needed amount of fuel oil — the nonpayments of our consumers. Currently, there are no problems in acquiring fuel and other materials: if we just had the money, but we do not."

"Thus, on the first of September, our consumers owed 1.910 trillion karbovantses for heating, including 1.346 trillion karbovantses owed by budget-funded organizations."

"Many also still owe for the last heating season."

"This is why I want to direct the readers' attention to the following: debtors who have not settled for the previous period will not receive heating. This is an emergency measure, but there is simply no other alternative."

"If we do not receive the money from consumers, then we will not be able to acquire fuel and to maintain a normal supply of heat."

"Last year, by the first of September, we managed to settle completely our own debts and, in addition, we were allocated a special-purpose credit by the Ukrainian Cabinet of Ministers to purchase fuel. Now we do not have this. The Crimean budget remains our sole source of funding. The Ministry of Finance is finding money for subsidies which compensate for the expenditures for heating residential housing. It is only thanks to this that we were able to purchase 17,000 metric tons of fuel oil."

[Gerasimenko] How are the repairs of the boiler houses and the heat-supply systems going?

[Kuzin] Despite numerous difficulties, all the same, we have managed to fulfill the outlined plan for winter preparations. By the first of September, we had repaired 130 boiler houses and 145 heat stations, we had replaced 16.4 km of the heat-supply systems and we are planning to increase this figure to 22 km before year's end. We have repaired the large boilers in the boiler houses along Lermontov and Turgenev streets, Severnyy Lane, in the 142nd block of Simferopol and others. And what is most noteworthy — this year, we conducted everywhere hydraulic tests of the heat-supply systems, as well as of the heat main pipeline coming from the Simferopol TETs. So we are hoping that we will begin the season in good shape.

[Gerasimenko] But when does the heating season officially begin?

[Kuzin] After the average daily outside temperature equals plus eight degrees or less over the course of 3 days. This usually occurs in the last third of October and, on the southern coast, later.

It must be noted that many boiler houses, especially those where the fuel reserves are low, in order to conserve it, are intended to provide a heat supply only on frosty days.

[Gerasimenko] In which cities and rayon centers, in your view, is the situation with respect to the heat supply the most alarming?

[Kuzin] The city of Feodosiya currently concerns us. We have taken the former military sites onto our own balance sheet, in particular, the boiler house with the fuel-oil storage facility in the settlement of Primorskiy. The railroad lines, along which the fuel oil is brought to the storage facility, have become unusable because of deterioration. There are no funds in the city budget for their repair. This is why it is necessary to to lay new ones at our own expense and this, as you understand, is not all that simple.

In addition, there is a complicated situation in Feodosiya with respect to supplying heat to residential houses and cultural and communal services facilities, which receive it from the boiler houses of a number of industrial enterprises.

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This has been caused by the very same reasons, i.e., nonpayments and the lack of funds for performing repair operations and acquiring fuel. The industrial ministries of Crimea and Ukraine should solve these matters jointly with the city executive committee.

Questions concerning providing heat to the settlements of Lenino and Razdolnoye and other rayon centers periodically surface in the press. I want to say once more that our organizations are ready for the season. It is a matter of the funding.

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Estonia

*Russo-Estonian Border Problems Examined

954F3436A Moscow SEGODNYA in Russian
1 Sep 95 p 3

[Article by V. Nesvizhskiy: "Constitutions Prevent Resolution of Russo-Estonian Border Problem"]

[FBIS Translated Text] **Negotiations Concerning the Territorial Problem Are Going on for Third Year Behind Closed Doors**

After 31 August 1994, when the last Russian soldier left Estonia, the Estonian law on citizenship and the territorial problem remained, probably as the only stumbling block preventing normalization of Russo-Estonian relations. There have been some initial shifts in the position of both parties with regard to the first point (concerning the residence permit of citizens of Russia and naturalization of emigrants), whereas with respect to the border dispute matters have become far more complicated.

As commonly known, Estonia determines its own statehood with regard to borders established by the Tartu Peace Treaty of 1920 (which includes Pechora and Ivangorod), whereas the Russian Ministry of Foreign Affairs adheres to the position in accordance with which the treaty has lost its force after incorporation of Estonia into the Soviet Union in 1940 while the redrawing of the borders in 1944-1945 is considered to be quite legitimate. With such divergent positions both parties are striving to reach a compromise but this subject is such a delicate one that negotiations on this question are going on for the third year behind closed doors.

Raoul Myalk, vice chancellor of the Ministry of Foreign Affairs of Estonia, heading the Estonian delegation at negotiations with Russia, confessed to a SEGODNYA correspondent: "We agreed to conduct these negotiations without outsiders since any word that filters out to the press might trigger a storm of accusations on the absence of patriotism—Estonian among the Estonian diplomats and Russian among yours." Myalk himself has already come under fire from the Estonian press which obtained some information about the discussion of the possibility of a compromise at the negotiations; that is deviation from the borders determined by the Tartu Peace Treaty.

At the same time according to some fragmentary information which still seeps out through the tightly closed doors of the Russo-Estonian negotiations, at least one of the variants being discussed has certain chances of implementation.

Over 90 percent of the current population of the disputed Pechora Rayon is Russian, whereas Estonian and Setu villages (the Setu nationality speaks practically the same language as the Estonians, but is of the Orthodox faith) are situated not far from the present border with Estonia. In accordance with that variant the parties could straighten the boundary as a result of which the non-Russian border villages (about 5 percent of the disputed rayon) would then be in Estonia, while the rest of the district would remain in Russia. In part that is evidenced by the change in the tone of the Estonian press: from the "not a step back from the borders set by the Tartu Peace Treaty," which predominated a couple of years ago, to a recent article in one of the republic newspapers which asserted that "demand for return of Pechora is .antamount to the betrayal of Estonia." In the opinion of its authors the situation in the republic would hardly improve if Estonia re-acquires the economically backward Pechora Rayon, "in the ba:gain" also getting the Russian population of 50,000 in that region.

At the same time the Estonians will most probably continue to insist on recognition of the Tartu Peace Treaty since to them it is the basis of statehood as it was specifically on the pages of that treaty that Russia "forever" renounced all rights to Estonia.

The head of one of the departments of the Moscow Institute of Strategic Studies of the government of the Russian Federation, Anatoliy Trynkov, also believes that the best and most realistic variant for Russia today is the rectification of the border, that is its straightening in individual sectors carried out with the mutual agreement of the parties. Mr. Trynkov, by the way, proved to be the only Russian representative to take part in the international conference on the border problem between Russia and Estonia, which took place last week at the Estonian city of Pylva. The conference itself represented one of the few attempts at an open discussion of the territorial dispute. Both the Russian Ministry of Foreign Affairs and the Russian Federation embassy in Tallinn both boycotted the forum, but instead of Estonian politicians and diplomats the conference included the participation of ambassadors and diplomats from Great Britain, Sweden, United States, Denmark, Lithuania, Poland, and France, as well as the CSCE representative in Estonia, who showed considerable interest in the Russo-Estonian dispute.

The Estonian side is, first of all, demanding recognition of the Tartu Treaty after which a discussion about the border can start. According to Mr. Trynkov, however, Russia does not recognize the Tartu Treaty specifically because of the border dispute, since that may give Tallinn an added trump card in the struggle for return of territories. "Any international agreement, concluded by Russia, is submitted by the Duma for expert analysis by the Institute of Strategic Studies. I can say for certain

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that our institute will produce a negative evaluation of any attempt to recognize the 1920 Tartu Treaty," Anatoliy Trynkov declared.

According to him Estonians in general made an error not wishing, as it was done by the Latvians, to put aside the border problem until better times: "The presentation of this question in principle is possible in the distant future, since the Final Act of the Helsinki Conference envisaged correction of borders by peaceful means." Raul Myalk, vice chancellor of Estonian Ministry of Foreign Affairs, did not agree with that, saying: "A frozen problem can become a hot topic at any time, and I would not like such a 'dormant' conflict affecting our relations."

At the same time the new Estonian Government, attempting to make some headway, issued a declaration to the effect that Tallinn "in principle is prepared to be very flexible in the territorial sense, but only if the Tartu Peace Treaty is recognized as the basis of Estonian statehood." An internal conflict, however, appeared in Estonia since in the Estonian Constitution adopted in 1992, Article 122 clearly states that the borders of the republic are determined by the 1920 Tartu Peace Treaty. Correspondingly any compromises proposed by the Estonian Government and the diplomats can be classified as "anticonstitutional acts."

It is not much easier for the Russian diplomats either despite the fact that the precise delineation of the current border is not recorded in either one of the bilateral agreements. The Russian Federation Constitution singularly indicates that any change in the territory of Russia is possible only as a result of a national referendum.

In addition to that, in this almost dead-end situation each of the parties has it own truth and its own righteousness: Russia ruled Pechora Rayon for centuries, 90 percent of the population in there is Russian, and after disintegration of the Soviet Union the Russian Federation was formed specifically within the current borders. On the other hand, not a single legitimate Estonian Government (it would, of course, be foolish to consider the puppet Supreme Soviet of the Estonian SSR of the 1944-1994 type, formed in occupied Estonia through the efforts of the NKVD [People's Commissariat of Internal Affairs], as being legitimate) has ever signed documents with Russia changing borders, and the 1920 Tartu Treaty with Russia remains de jure for Tallinn. It appears, however, that both sides really want to reach some compromise in order to prevent today's problem from evolving into an old sore which poisons relations between the two countries. In order to resolve the territorial problem, however, both sides will have to engage in "anticonstitutional" acts. Otherwise the Russo-Estonian dispute might become another South Kuril Islands issue.

Even in that case, however, if Russian and Estonian diplomats are able to come to an agreement and work out a compromise behind closed doors which suits both sides, there is considerable doubt that such an agreement could be ratified readily by parliaments in Tallinn and in Moscow: the lack of willingness to compromise among Russian deputies differs little from the staunch adherence to principle of their Estonian colleagues.

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